"*Look!* Those Black Rocks —*They're Burning!*"

How the discovery of a lonely pioneer launched a new industrial era

ONE cool night in the fall of 1792, a pioneer adventurer by the name of Neccho Allen built himself a small campfire and lay down beside it to sleep. In the morning he was amazed to discover that his fire was still burning, a deep red glow in the heart of it—a fire from which emanated an intense and unusual heat.

Allen investigated. He saw that he had built his fire the night before on certain "black rocks" which apparently had caught fire themselves and were now burning and glowing like huge, live jewels.

He was not the first to notice this phenomenon. As early as 1180 an English bishop had recorded the finding of "black rocks that burned." But he was a progressive, forward-thinking man, this Allen. He realized that here was a force far too significant to waste on campfires. He drew the attention of others to these remarkable "black rocks" . . .

And presently coal was playing a vital part in the story of civilization! Men were using the "black rocks" in furnace and forge, making iron, making steel, making power to move machines. The Industrial Revolution was at hand, changing our whole way of living.

* * *

As Neccho Allen saw and suspected the tremendous Unseen Value of anthracite, so today thousands of car-owners are discovering the meaning and the importance of Unseen Value in motor cars.

The Chrysler Corporation has made America definitely aware of Unseen Value. It is not something you can see or feel. It is not a tangible thing like beauty, power or safety. Yet Unseen Value is far more real and far more vital to the car-owner than the iron, rubber, steel, glass of which a car is made.

Fundamentally, all cars are alike. They have wheels, axles, gears, motors, brakes. One car may be a coupe, another a sedan. One may have six cylinders and be painted blue, another may have eight cylinders and be painted green. It is only when you look beyond the assembling line and search for the impelling aims and *ideals* of the organization, that you see the Unseen Value of the car you are buying.

Those who drive Chrysler-built cars know the pride and confidence that go with ownership of a Plymouth, Dodge, De Soto, Chrysler. For these four famous cars possess Unseen Value *to an exceptional degree.*

BEFORE BUYING A CAR —ASK YOURSELF THESE 6 QUESTIONS

1. *Has it proper weight distribution?*
2. *Has it genuine hydraulic brakes?*
3. *Is it economical to run?*
4. *Has it floating power?*
5. *Has it safety-steel body?*
6. *Does it drive easily?*

ONLY CHRYSLER-BUILT CARS HAVE ALL SIX

The Unseen Value of Chrysler-built Cars

It always has been the ideal of the Chrysler Corporation to improve cars in every possible way, and *to keep improving them.* Its policy has been to put into its cars, not merely the best materials, but also the inspiration and genius of the men with whom Walter P. Chrysler and his associates have surrounded themselves.

Today, because of devotion to this ideal, about *every fourth car sold* is a Chrysler-built car. People have been quick to recognize the Unseen Value of the Plymouth, Dodge, De Soto, Chrysler—the Unseen Value of Dodge Trucks and other Chrysler products. Of all American motor manufacturers, Chrysler Corporation alone exceeded in 1935 its rate of production for the boom year of 1929.

Consider Unseen Value when you buy a car. Consider the *exceptional* Unseen Value of the famous cars and trucks built by Chrysler.

Chrysler Corporation

PLYMOUTH
DODGE
PASSENGER CARS AND TRUCKS
DE SOTO
CHRYSLER

Chrysler Marine and Industrial Engines • Airtemp—Air Conditioning

YOU GET THE GOOD THINGS FIRST FROM CHRYSLER CORPORATION

Member of Audit Bureau of Circulations

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WITH THE EDITORS

Origin of a Myth

WE have often wondered whence came the remarkable charge—constantly voiced by critics of our capitalist system—that "2 per cent of the people own 90 per cent of the wealth." Sometimes it varies a bit. The orator may generously concede that 5 per cent of the people own 90 per cent of the wealth.

George E. Roberts, economist of the National City Bank, has traced this myth back to early days when probate records in Massachusetts were used to support the deduction that the top 2 per cent of the population possessed 50 to 60 per cent of all wealth, the next 18 per cent of well-to-do people had 30 per cent of the wealth, while the remaining 80 per cent had 10 to 20 per cent of the wealth.

That's a pretty feeble basis for such a robust myth! Let us look at the Government's survey of the national wealth made in 1926. Out of the estimated total of 353 billions, real estate and streets, highways, etc., accounted for 198 billions. That is not concentrated among a wealthy few. Farm equipment and livestock totalled 8.4 billions; automobiles, 4.5 billions; furniture and personal effects 40 billions; agricultural products 5.4 billions. Ownership of these classes of wealth is, obviously, widely diffused. Next came manufactured goods totalling 28 billions in value, title to which lay with thousands of producers, jobbers, dealers and merchants, large and small. This leaves 15.7 billions for manufacturing machinery and equipment or less than 5 per cent of the total wealth. Finally, there was 41 billions in railroads, utilities and other service enterprises or less than 12 per cent of the total.

Unfortunately, it is not sufficiently realized while this wealth debate rages that the vital thing to the nation is the wealth flowing into current consumption in the form of goods and services. That is what our living standard rests on. Only a small fraction of accumulated wealth is in a form that can be consumed and it would not carry us a year. We can't get indignant over the fact that the title to the Ford Motor Company lies with Henry Ford. His factories as such are worth nothing to us, but as long as he employs them to produce good automobiles for us at low cost we are sharing his wealth. So far as distribution of the national income is concerned, the percentages of the different major classes have been virtually constant since 1929, with 65 per cent regularly being paid in wages and salaries.

The Mid-Year Dividend Forecast

Begins in the Next Issue

•

Investment Standing, Industrial Outlook Earnings Prospect, Dividend Forecast for Leading Companies

Part I **Issue of August 1**	**Steel, Metals, Equipments, Railroads, Liquors, Amusements**
Part II **Issue of August 15**	**Motors and Accessories, Tires, Foods, Chemicals, Tobacco, Public Utilities**
Part III **Issue of August 30**	**Oils, Aviation, Building, Chain and Department Stores, Mail Order and Miscellaneous**

OVERSEAS TELEPHONE RATES REDUCED

Reduced week-day rates for telephone calls to Europe, South America, Central America, Hawaii, Philippine Islands and the Caribbean Islands are now in effect. There are also new Sunday rates to these same countries.

This is the third reduction in Overseas telephone rates since 1927—and service has been constantly improved. The cost of a three-minute telephone call from New York to London or Paris, for example, is now only $21 during week-days and $15 at night or on Sunday. (See the rate table at the right.)

NEW OVERSEAS RATES

NEW YORK to	Previous Week-day Rate	New Week-day Rate	New Sunday Rate
London	$30	$21	$15
Paris	30	21	15
Buenos Aires	30	21	15
Rio de Janeiro	30	21	15
Berlin	33	24	18
Honolulu	30	24	19.50
Manila	39	30	24
Panama City	21	12	9
San Juan, Puerto Rico	18	12	9
Guatemala	21	12	9
Bogota, Colombia	24	15	10.50

• Night rates (5 P.M. to 5 A.M.) are also in effect to European points and are the same as the Sunday rates.

Just call Long Distance and ask for the Overseas operator.

• Above rates effective from most cities on the Atlantic seaboard. Rates from other points in the United States vary according to the distance involved.

The new Overseas telephone rates bring offices abroad closer to headquarters—make it still easier to deal directly, personally, with foreign representatives or customers.

E. Kenneth Burger
Managing Editor

C. G. Wyckoff
Publisher

Theodore M. Knappen,
Laurence Stern
Associate Editors

The Trend of Events

We Don't Want Any Kind of Monopoly

JOHN L. LEWIS is an able and courageous man whose objective is to gain for himself more power than any labor leader ever before had in this country. That is why the fight between the American Federation of Labor and Mr. Lewis on the issue of industrial versus craft unionization and the present effort of Mr. Lewis to impose the closed shop on the steel industry are of great political, business and social significance.

Assuming Mr. Lewis wins—which he may or may not do—let us look ahead a bit. Monopoly, whether in an industrial or a labor organization, always and inevitably comes into conflict with public interest. In normal times there should be, roughly, 50,000,000 persons gainfully occupied in this country. Their economic status, their social philosophy and their way of life present such diversities that Mr. Lewis can never hope to bring more than a relatively small minority of them into industrial unionism. Moreover, millions of voters—housewives, for example—are not classed as gainfully occupied. Again, the millions of farmers have little in common with the Lewis movement, despite the prattle of our Communists about a "Farmer-Labor" party.

So what happens? The labor monopoly or the industrial monopoly or both working together will fix production, wages and prices—and the great majority of us will be expected to pay the bill. We will pay it for a time, then we will rebel and we will impose the restrictions and restraints of public regulation both on the labor monopoly and the industrial monopoly. We saw this happen in England when organized labor let power go to its head. It will happen here.

The philosophy of John L. Lewis was shown plainly in the Guffey Law, designed to set up a price-fixing monopoly jointly administered by the bituminous coal mine owners and the workers. Such a set-up in the long run can benefit neither labor, nor industry, nor the public. Mr. Lewis' United Mine Workers organization has long been the biggest industrial union in the country. It has solved neither the economic problem of the coal miners nor that of the mine owners. Why? Simply because what the mine owners can pay in wages depends upon what they can get from the public for their product and that, in turn, depends upon the price of coal and its relation to the prices of other fuels. Similar limits apply to steel, to rubber tires, to automobiles and other industries Mr. Lewis would like to "organize." In the effort he will promise his disciples the world—but neither he nor anyone else can make good the promise. The American people don't want, and will not long stand for, any kind of monopoly.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS
1907—"*Over Twenty-Eight Years of Service*"—1936

Speak Out, Mr. President!

THE issue, says President Roosevelt, is between the rights of "the common man" and the special privilege of "the economic royalists." We doubt it—but if there is reality behind this sweeping assertion the country is entitled to know it. If Mr. Roosevelt is not to invite suspicion that he has trumped up a meaningless issue merely because it appears to suit the requirements of rabble-rousing political oratory, let him call out some names.

Who are these "economic royalists"? Presumably the President must know the identity of some of them. Is every person possessing wealth an "economic royalist"? Or does the President apply the term only to those who, in his opinion, have wrongfully come into possession of wealth or who, also in his opinion, use their wealth in anti-social ways?

Is his friend Vincent Astor, whose fortune came chiefly from the increment of land values in New York City, an "economic royalist"? Is his friend Joseph P. Kennedy, millionaire financier, an "economic royalist"? Would he apply the term to Bernard M. Baruch, possessor of a stock market fortune, with whom he has more than once advised on matters of public policy? Would he apply it to Owen D. Young, rich industrialist, with whom he also frequently consults? Does his accusation apply to John D. Rockefeller, Jr., whose life work is the effective philanthropic use of the vast fortune his father made? Does it apply to Henry Ford, to Walter P. Chrysler, to the du Ponts, to Ernest Wier and to hundreds of other able men who have made legitimate fortunes by creating products that the people desire at prices that the people can afford to pay?

If not to such as these, then toward whom *does* Mr. Roosevelt level his fire? The voters have a right to know. If the President can not or will not tell them, his accusation—tarnishing alike the great majority of honest business men along with the small minority of the dishonest—will fall flat. It is an accusation of a man himself born to wealth, owner of a home in a rich section of New York City, of part of the ancestral estate at Hyde Park, of a camp in Maine, and of a home and large farm in Georgia.

Speak out, Mr. President!

Emotion Versus Reason

IT is no doubt ingrained in human nature that discontent with one's own economic status is always sharpest when that status is compared with the more fortunate lot of somebody else. This is a matter of emotion and not of reason. It explains why there has been much grumbling among stockholders over the amount of remuneration paid to corporate executives.

A study of the salaries and bonuses of officers of 694 companies in twenty-five major industries made by the National Association of Manufacturers shows that such remuneration represented 3 per cent of the total payroll, six-tenths of 1 per cent of the volume of sales and 13 cents per share on the common stocks of these corporations. In contrast, it was found that taxes paid amounted to 34 per cent of total wages and salaries.

Quite likely the statistics are accurate, but the debate will go on. It is a debate born of emotion and human envy, even as was the undying myth that "2 per cent of the people own 90 per cent of the wealth." You can refute reason but not emotion.

The War Becomes Boresome

PRESIDENT ROOSEVELT speaks of the present political campaign as a "war" in which he is "enlisted for the duration." His speeches abound in fighting, crusading words. Can it be that Mr. Roosevelt, erstwhile master in sensing the pulse of public opinion, is for once a bit out of touch? One of his former close friends and respected advisers—Raymond A. Moley—evidently thinks so.

Mr. Moley says publicly—and obviously in friendly warning to his former boss—that the people "have become a little confused, a little frightened, a little fed up with talk about 'mass urgings and surgings,' with accusations, investigations, scolding, reformation." Human nature, he adds, is beginning "to refuse to stay on the crusading plane, just as it did many times in the past from Cromwell to Wilson." Indeed, he warns, the people in their yearning for "moderation" and normalcy may become so weary of the New Deal "war" that they will rush to extreme reaction.

About a rush to reaction we have our doubts. As to a yearning for moderation and a great weariness with overzealous political crusading, we check with Mr. Moley.

Passengers Return To the Rails

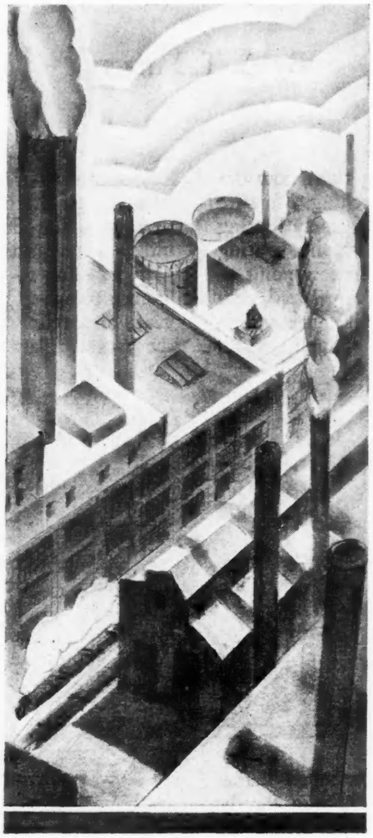
ON the evidence so far this year it appears probable that the railroads for 1936 will carry at least 575,000,000 passengers, as compared with 433,000,000 in 1933 and 862,000,000 in the so-called normal year 1926. Thus rail passenger traffic may be said to be approximately 67 per cent of normal, against 50 per cent of normal three years ago.

Business recovery, reduced fares, increased speed and greater comfort—including the boon of air-conditioned cars—have all played a part in returning passengers to the rails. Yet one has only to observe the highways, the bus terminals and the airports to realize that total travel at present is far closer to normal than is travel by rail.

Hence the rails have only started the uphill battle but the chances are that drastically lower fares and radically improved service will work wonders during the next several years. The opportunity is great for, as railroad engineers have pointed out, rail passenger business would be more than doubled if the roads succeeded in taking away only 10 per cent of the intercity traffic now using buses and private automobiles. In contrast only some 15 per cent of normal freight traffic has been lost to other transport and recapture of even half of it would not vitally change the position of the railroads. Their job is to beat the automobile in comfort and cheapness. It can be done.

The Spending Habit

LISTENING to Secretary of the Treasury Morgenthau explain the financial position of the Government at the start of the new fiscal year, the radio audience might well have got the idea that having a huge Federal deficit is a swell thing. Disregarding debt retirement, which is a bookkeeping joke as long as it is done through new borrowing, and leaving out of consideration the veterans' bonus, which presumably is non-recurring, the actual deficit for the past fiscal year was $2,637,109,000 or a decrease of $364,690,000 from the deficit of the preceding year.



This would be mildly encouraging—until one observed that as an automatic result of business recovery the Federal revenues for the year were up $315,489,000, despite loss of $444,730,000 in the former A A A processing tax yield. In other words, despite a great economic recovery and a considerable increase in private employment, the New Deal continues to spend in the style to which it has become accustomed.

Make no mistake about it. We have started something that is going to be very hard to stop. The people and their local divisions of government have been encouraged—nay, invited—to run to Washington for help on every conceivable plea of emergency. Everyone knows that if we were paying these extraordinary costs out of current taxation, the bill in one way or another would be drastically reduced. Yet the time is surely coming when it will have to be paid in precisely this painful fashion—paid by all of us, including the present apparent beneficiaries of our benevolent Government. There is only one other way—inflation and repudiation, even more painful.

Bank of England Buys Gold

AGGRESSIVE acquisition of gold on the part of the Bank of England has brought the Old Lady's holdings of the metal to almost £226,000,000—figured at the old price—a new high record. Various interpretations have been placed upon the development; it has been said that it brought England that much nearer the resumption of gold payments, that it constituted an official denial of recent statements by British economists that their country would never return to the gold standard as it was practised in bygone days.

Then there is the simpler explanation that the Bank of England's acquisition of gold has merely conformed to legal requirements. Except in an emergency, the Bank is forbidden to issue more than so much currency unless it be backed by gold. Business, however, has expanded greatly and this, coupled with the hoarding of British banknotes by the French who wish to keep their holdings of foreign exchange secret, has mightily increased the demand for currency. Hence, it is said, the Bank of England has been forced to acquire gold and the mere fact that it is unable to pay more than the old price for the metal has not prevented it from obtaining a large amount through a special understanding with the Exchange Equalization Fund.

To the United States, the largest holder of gold in the world, the fact that official Britain still thinks enough of the metal to continue employing it as a currency reserve is a matter of some reassurance. Assuming that our present monetary authorities down in Washington are capable of worrying about it at all—and some of the things we have done in connection with gold and silver make one doubt it—there is a growing opinion that gold has seen its day as a currency reserve.

Countries have found that they can get along indefinitely without the gold standard. What this country will inevitably lose on its stock of silver would be nothing to what it would lose if gold were generally abandoned. The Bank of England's action indicates fortunately that this is still remote, but if we want the world back on gold, let us not delay until the rest of the world has forgotten what it means.

All Quiet on The Silver Front

FOR some time strangely little has been heard about the Government's silver buying program, that panacea that was going to "raise the buying power of the Orient," "cheapen the value of gold" and "pave the way for world stabilization of currencies."

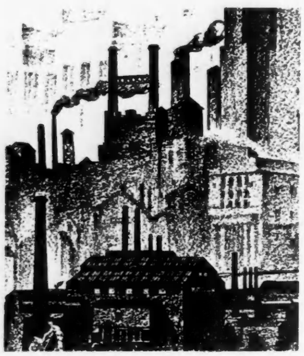
In the recently adopted Democratic platform there is nothing about silver. The President has not publicly referred to it for a long time. The Secretary of the Treasury in stating recently that the dollar was stabilized "*de facto*" obviously meant stabilized in terms of gold, for in terms of silver the dollar is still erratic.

Apparently silver has lost much of its political popularity. Can it be that after the Government has bought hundreds of millions of dollars worth of this not particularly precious metal the whole scheme will be quietly dropped some time after the national election? We would not be surprised. Monday, July 13, 1936.

What's Ahead for the Market?

By A. T. Miller

WHAT the stock market is doing right now depends entirely on what stocks one is watching. Measure it by the popular Dow-Jones average of thirty leading industrial stocks and it would appear at this writing to be approximately 15 points above the low point of intermediate reaction reached late in April and only some 3 points under the absolute bull market high reached on April 6. This, and the manner in which the same average has resisted recession during the past fortnight in the face of considerable bad news, would seem to be decidedly encouraging.



But if we measure by our own combined index of 295 stocks—certainly a more reliable reflection of the general trend—we find that the market is only 5 points above the year's low and 10 points below the year's high; and there is nothing in this performance to get excited about. It represents a rather feeble recovery, yet it is at least a negatively favorable technical indication that this slow and very selective phase has now lasted about ten weeks. If the causes of the April sell-off were still operative it should have been extended before now. Hence our previous belief that bottom for the market, as measured by our own broad index, has been seen appears to be confirmed. On the other hand it is certainly open to question whether we are to see a new phase of major and general advance in the present setting. We are inclined to expect that the more logical outcome will be maintenance of a horizontal drift or at least a trading range defined by the April highs and lows, unless and until dynamic fresh stimulation is provided by business or other developments not now visible.

Within the present relatively flat movement of our average we are, in fact, having a variety of different markets. The public utility stocks, for example, have reached a new high for the year and the same is true of the Dow-Jones utility average. Since speculation generally, and public speculation particularly, is at a low ebb, the presumption must be that this movement has reflected a good grade of buying, whether for investment or speculative account. It is based on the fact that electric utility gross revenues and profits have been and are showing substantial gains, and on the further fact that the general run of dividend paying utility equities still yield a considerably more attractive return than can be found in most industrials or rails. With both Congress and the Supreme Court recessed for some time to come, the utilities face an extended political breathing spell. Meanwhile investment and speculative buyers are free to hope that on the one hand the election *may* resolve some of the longer threats overhanging the head of this industry, and that on the other hand, whichever way the election goes, the Supreme Court *may* throw out the utility holding company law early next year.

In addition to the utilities, the dairy products and finance company groups have made new highs for the year; and relatively good support is being accorded the motor, glass container, department store, mail order, variety store, sugar and tire groups. In contrast, agricultural equipments have recently made a new low on the drought news, though this action must be judged with regard for previous large advance. New lows for the year likewise have been made by the business equipment, drug, food brand, sulphur and food chain groups.

Strong advance in the gilt-edged Norfolk & Western and in Chesapeake & Ohio—the latter on expectations of a larger dividend—plus speculative stirring in the long dormant Alleghany issues have carried the Dow-Jones rail average close to the year's high; but other rails have yet to show a convincing resumption of the advance, our own average of twenty-four such issues being well under the previous high, although it should be noted that decline in the northwestern rail stocks, which have been adversely affected by the drought, has tended somewhat to impair the validity even of this average for the present.

On the whole, as the diverse movements briefly sketched above strikingly illustrate, this remains a market of stocks, and not a stock market subject to any general trend. It likewise remains painfully thin, so that selling by a handful of even medium-sized investors or traders for any reason can and will at any time cause disproportionate reaction in all save a limited number of the most active issues.

Hence, it need hardly be reiterated that we believe a conservative and selective short-term trading policy is called for, even though we regard the possibility of a general extension of the April decline as exceedingly remote. Since no change is in sight to reverse the major cyclical recovery in economic activity or to halt the Government's deficit financing and its consequent inflation of bank deposits, there is, of course, no deviation indicated in a bullish long range investment attitude toward sound equities.

Quite naturally, attention at the moment centers on the drought, the possible adverse effects it may have on general business activity during the rest of the year and, specifically, its effects on farm equipment, automobile, mail order and store business and railroad freight volume in the areas worst affected.

With renewed rally in progress, the market's action is encouraging. Its selectivity and thinness call for a conservative speculative policy, though danger of general and serious reaction is remote. There is no change in our long range investment position.

An old Wall Street saying is, "Never sell stocks on strike news." This may not be as valid in the future as it has been in the past, since the present labor move in steel and automobiles seems to have more effective leadership than ever in the past. But on the record of the disastrous 1934 drought, we are inclined to believe this maxim may be paraphrased into this: "Never sell stocks on drought news."

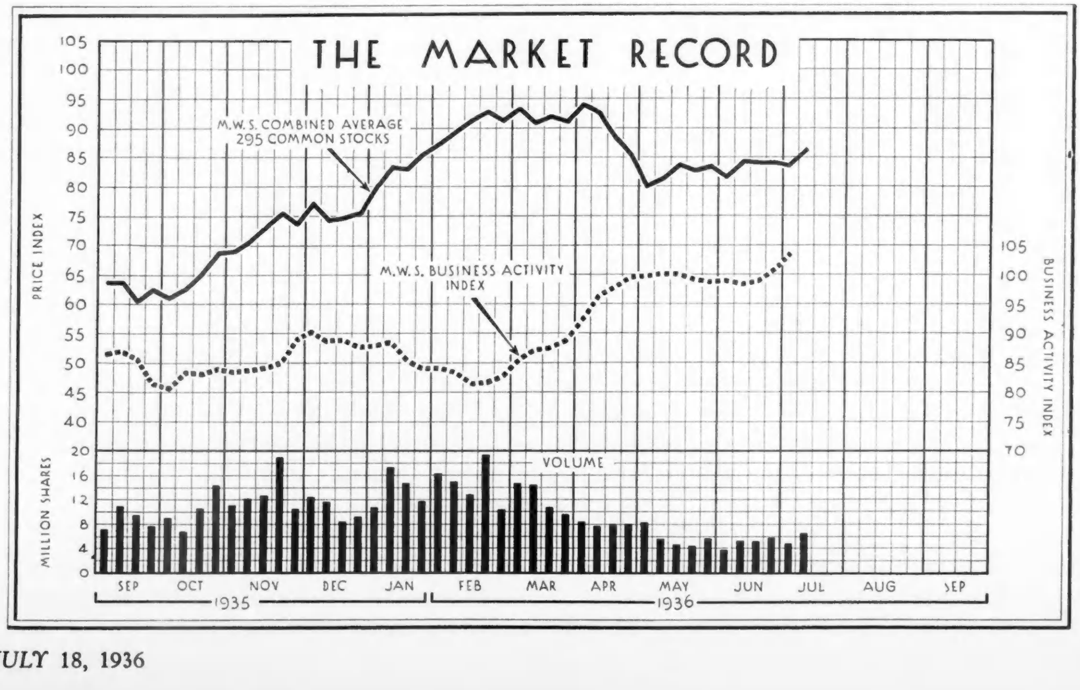
It is a fact that sensational newspaper headlines almost invariably tend to exaggerate the actual damage resulting from drought. One would get the impression that the whole country has been burned to a crisp. Actually the present drought is not yet as widespread as was that in 1934. Whether it will become worse is anyone's guess, but in making conjectures as to its probable economic consequences it is pertinent to look back to 1934 and see what really happened. In the main 1934 drought areas—the Kansas City, Minneapolis and Dallas Federal Reserve districts—there was a sharp rise in cash farm income during the worst of the drought, which was caused by abnormally large marketing of cattle disposed of because of lack of feed. This spurt was followed by a decline, but the net effect was merely to flatten out for a time the general rise in farm income which began early in 1933 and which has continued, though at a reduced pace, up until recently.

Again, there was a slight decline for two months in automobile registrations in the Minneapolis Federal Reserve district during the worst of the drought, followed by renewed advance; and in the Dallas and Kansas City Reserve districts the effect was merely a levelling off of the rise in motor demand during the second half of 1934, followed by renewed recovery early in 1935.

The story was much the same for mail order sales in the drought areas; that is, a flattening out of the rise during the second half of the year, followed by renewal of vigorous advance.

As for the aggregate business of the country in that drought period, drought had far less influence on the course of the business index than did the abrupt relapse in steel operations which followed abnormal inventory accumulation in advance of an announced boost in steel prices. Similarly the near-term outlook for business at present is more affected by inventory accumulation in steel during June due to a price factor and fears of coming labor troubles than it is by the drought. The depth and duration of the expected steel recession and that in the motor industry as new-model time approaches will largely tell the story of business activity in coming weeks.

Yet one certain result of drought will be to raise food prices and that by no possible reasoning can be construed as a favorable development. It is likely to aggravate labor disturbances and may quite likely have some political repercussions.



Happening in Washington

By E. K. T.

Washington Sees—

Political uncertainty holding back some juicy orders in heavy industries.

No serious business threat in the drought but marked political repercussions.

Dole allowances approach productive wages.

Big strikes not immediate.

Reciprocal trade policy showing its teeth.

Department of Justice pushing anti-trust investigation.

Government Contract Act sustaining life in N R A principle.

Federal Trade Commission going easy in enforcement of muddled enforcing price discrimination act.

Political uncertainty is recognized as exerting a definite restraining influence in some divisions of business. Gratifying as the present volume is to administration leaders, it is realized that it would be even better, despite the summer season, if many orders for durable goods were not being held back. There is a growing need for heavy machinery and other manufacturing equipment but orders are currently restricted to immediate necessities.

A tremendous backlog is thus building up for the last two months of the year—if it does not break out sooner when the result of the election becomes more confidently anticipated. A Landon victory would precipitate a great outpouring of new business at once. If the President is returned to office some small delay may result but new business will materialize soon after the uncertainty is relieved. *Machine tool, foundry and electrical equipment makers will be moved to new heights of activity.*

Drought in the northern plains states, even though it is somewhat relieved, works both for and against the New Deal. It is politically helpful to remind the public that the various federal relief agencies have equipped the Government with a mechanism for prompt and probably reasonably efficient handling of the crisis—and with abundant funds. On the other hand the drought painfully stirs the public memory (furbished by increasing food costs) of the deliberate destructions and curtailment of crops in 1933-34-35. Some extra-pious people look upon this year's drought as a divine penalty for waste of wealth.

On balance, however, political result will be to double-rivet Minnesota, the Dakotas and Montana to the Roosevelt column.

Business effect of the drought will not be serious in a national sense, unless it extends to the corn belt. WPA and Resettlement Administration funds will considerably offset the loss of farm income in the blighted areas.

Ultimate political and fiscal effect will be in the direction of centralization. Already there is clamor for the Federal Government to assume the task of reconstruction of the affected regions on the theory that the drought is more than cyclical—that it represents a man-made change in climate which can only be corrected by a gigantic reclamation scheme planned and directed by the Federal Government—a work of decades and billions, involving also tremendous resettlement problems.

Labor: First shots have been fired in the "war" between John L. Lewis, president of the Mine Workers' Union and leader of the industrial organization unions of the American Federation of Labor, and the steel industry. At the same time war impends between the old line craft unions and the Lewis group. Administration leaders are, of course, against the steel proprietors, and side with Lewis against Green. But they want the steel battle postponed at any cost until after election. They have the organized labor vote in their pocket now and a bitter industrial conflict would probably lose some votes there and many in the national community as a whole.

Charges are made that the Steel Institute has deliberately decided to precipitate the crisis of the struggle with Lewis during the Presidential campaign on the theory that the irrepressible conflict had better be fought while the fighting may contribute to the overthrow of a Government that is emphatically pro-labor than after it has (possibly) been given another lease of power.

If the crisis comes, however, the weight of Federal and state governments will be thrown on the side of labor. Note that a law passed at the last session of Congress makes it the duty of the Department of Justice to protect labor pickets. Nothing is said about protecting the workers who are picketed.

Chances are that while organization campaign in steel, automobiles and rubber will be vigorously pushed, hostilities will be delayed until after election, although temptation is great to get a showdown while pro-labor governments are in power at Washington and state capitals. Immediately after election pro-labor governments will still be in power for several months, in any event, and a critical situation can be created for Landon, should he win.

New law prohibiting interstate transportation of strike-breakers may get early test. Labor has great faith in law but Department of Justice is inclined to feel it applies only to men engaged to break up picketing and will not prevent importation of workers to take strikers' places in factories.

Problem of unemployment was formerly largely a family and local matter. It has now become almost entirely a public affair. Old-time reluctance to be listed as jobless has now become eagerness to be so listed. There is more competition for formal unemployment than there is for em-

ployment. No matter what the real facts may be the count of the unemployed will always be larger absolutely and relatively than in the past.

Latest policy of Works Progress Administration provides same rate of pay for economically idle as for being productive. WPA reliefers now get the going local wages for doing dole work. Next step will be to establish the rule that straight dole benefits must be equivalent to local wage remuneration.

Supreme Court may be considering constitutionality of Wagner labor relations law by the time the big strikes are called. Lower courts are finding no Federal jurisdiction over relationship between employer and employees in manufacturing industry. Several appeals now on way to high bench. Labor attorneys justify the act on the ground that years ago Supreme Court declared activities of unions in coal and other strikes constituted interference with interstate commerce, giving Federal Government jurisdiction. They argue that federal machinery for collective bargaining is constitutional in that it keeps commerce moving.

A group of nation-wide strikes paralyzing industry might bring this argument home to Supreme Court better than lengthy briefs—or might scare the Court into upholding the law. Such may be the strategy of the Lewis-led group of militant labor leaders.

Constitutionality of Securities Exchange Act may reach Supreme Court this fall and on relatively minor provision. Twenty-five suits in Federal circuit court seek to enjoin S E C from disclosing confidential data as violation of search and seizure guarantee, but all attack constitutionality of entire law. Last spring Supreme Court dodged constitutional question in deciding J. Edward Jones' right to withdraw an offering.

Putting Australia on the special trade agreement policy's blacklist creates an anomalous situation. It penalizes a country which buys from us three times as much as it sells to us. Reprisals will probably follow. However, it gave the President a welcome opportunity to demonstrate that his trade agreement policy is not entirely toothless. Australian contention was that a truly reciprocal trade agreement meant expansion of exports to us and reduction of imports. Secretary Hull holds that restoration of international trade cannot be based on a balance of exports and imports in the case of any one nation.

Anti-trust activities by Department of Justice will increase during fall. Goaded by Republican charges of monopoly (now echoed by Roosevelt and Democratic platform), old line D. of J. lawyers have secured approval of several investigations.

Until recently, New Dealers in the Department, backed by the White House, have followed Felix Frankfurter philosophy of not enforcing anti-trust laws in belief that "little man" in business will demand something stronger in way of government regulation (such as revival of NRA). Now that "economic royalists" have become an issue this attitude has been side-tracked. Democratic platform promises both criminal and civil enforcement of anti-trust laws. Performance: criminal suit in oil industry now before Madison, Wis., grand jury; civil action in preparation by Attorney General re collusive bidding in steel industry.

Growing movement among business firms to dramatize high cost of government by telling customers what percentage of the price represents taxes presages increased citizen interest in economy. Federal spending will be one of biggest issues in election campaign.

Amateur detectives, disgruntled employees, and business rivals get chance to stir up trouble by Internal Revenue Bureau's offer of reward of 10 per cent of recovery for information on evasion or violation of Federal revenue laws.

(*Please turn to page* 443)

Two Industries Dominate the Business Outlook

An Appraisal of the Summer and Early Fall Trend with Consideration to the Labor Problem and the Drought Effects

By John D. C. Weldon

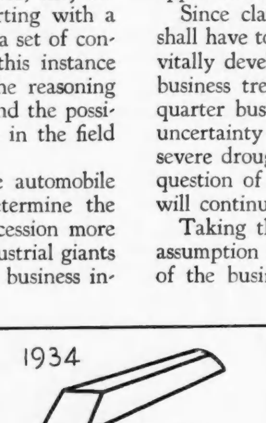
BEFORE the end of this month recession in aggregate business activity will be under way. The reaction will establish a bottom some time in August, but at a higher level than the third-quarter low point of last year. During September the trend will turn upward again.

Some of these are bold predictions. Moreover, they reverse the traditional analytical method of starting with a host of qualifications and thence working up to a set of conclusions or assumptions. Our conclusion in this instance having been stated, we are free to consider the reasoning involved, the factors taken into consideration and the possibilities of error, which are always considerable in the field of business forecast.

As a practical matter, what happens in the automobile and steel industries in coming weeks will determine the depth and duration of the summer business recession more than all other factors combined. These two industrial giants not only have heavy statistical weights in most business indexes but in fact account for an enormous and basic part of all business volume.

As to the early outlook in steel, these questions present themselves: How much of the recent active volume has been due to forward buying brought in by anticipation of higher prices which took effect July 1? How much of it represented and is still representing the accumulation of inventories of steel because of fears of labor difficulties in the industry and a possible stoppage of production by a major strike or strikes? How much of it has the solid foundation of demand reflecting current consumption needs?

As to the early motor outlook, there are these questions: Does the remarkably sustained retail demand reflect an underlying and continuing improvement in public purchasing power? Or has demand been ballooned by the large circulation of cash provided by a benevolent Government, notably in the soldiers' bonus? How soon will factory shut-downs begin in the industry's change-over to the 1937 models? How long will those shut-downs last? Will they all come at about the same time or will they be staggered?



STEEL INGOT PRODUCTION
FIRST SIX MONTHS OF EACH YEAR (JUNE 1936 EST.)

Given wholly accurate answers to these two sets of questions, the analyst could forecast with a high degree of certainty the scope and duration of recession in steel and automobiles in coming weeks and, hence, arrive at a fairly close approximation of the general industrial and business trend.

Since clairvoyance is given to no analyst, however, we shall have to make various assumptions. Moreover, however vitally developments in steel and motors affect the general business trend, they are not the whole story of the third quarter business outlook. A largely incalculable factor of uncertainty has been injected into the picture by renewed severe drought in western farm areas. Finally, there is the question of how much longer the soldiers' bonus payments will continue to stimulate trade.

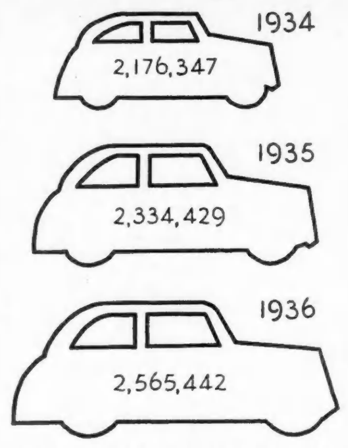
Taking the status of the steel industry first, it is a safe assumption that at least one-third, even possibly one-half, of the business booked in June represented inventory accumulation dictated by the factor of higher third quarter prices on many steel products. In the summer of 1934 a similar development was followed promptly by a very abrupt and severe relapse in steel production. For several reasons, however, this sequence can not be expected to happen at present.

For one thing, due to gradual improvement in railroad buying of steel and revival in other previously depressed markets, together with sustained high demand for tin plate and other steels going into consumer products, the volume of business reflecting current consumption occupied a much larger proportion of the industry's available capacity in June than was true in any previous June since the basic upturn began. This meant that orders superimposed in June as a result of coming higher prices simply could not be filled by the first of July. Hence the industry's operations have extended into the present month at an unusually high level to fill orders placed in June at second quarter prices. Such a leveling out of what would have otherwise been

a sharp relapse is advantageous to the steel manufacturers because sharp gyrations in production upset cost relationships.

Again, it is to be doubted that steel business placed in June took full account of the increasingly alarming steel labor developments. The issue was brought to a public show-down only recently by joint action of the industry in stating through the American Iron & Steel Institute that it will throw its whole power into a fight against the closed shop principle. The effect of this no doubt will be to encourage some further accumulation of inventories even at the new higher prices on most steel products.

Moreover, the machinery industry, tin container makers and many other consumption goods lines using steel are continuing to operate at a satisfactory level, which means a backlog of support for the steel industry.



AUTOMOBILE PRODUCTION
U.S. AND CANADA FOR FIRST SIX MONTHS OF EACH YEAR (JUNE 1936 EST.)

On the whole, therefore, the prospect on the present evidence is that steel operations will taper off gradually during the rest of July and probably will not fall more than 10 per cent under the June high. The filling of orders placed in June, however, and the relatively rapid tapering off in demand from the motor industry will coincide or overlap and will therefore produce considerable recession in August. By September production again should begin to rise. We doubt that at the third quarter low point steel operations will fall much, if any, below 50 per cent of capacity. Just a year ago from the time this article is being written, the rate was only 32 per cent of capacity and at the same time in 1934 was only 21 per cent of capacity.

Even the perennially optimistic automobile industry has been surprised at the late season vitality of retail demand. As a result production has been maintained at a higher level thus far in July than had been anticipated and some companies even have had to increase production in order to build up adequate dealer stocks before shutting down for change-over to the new models. Ford Motor Co., for example, has recently returned to a five-day production week after operating on a four-day week for approximately a month. It is not known how long this will continue, since Ford schedules are subject to sudden change. Chrysler plans 90,000 cars this month, with a drop to about 40,000 in August.

Motor Demand Sustained

Thus, while the trend of motor production is now gradually downward, the sharpest relapse will come in August and not July. On present indications July output probably will approximate 360,000 units, as compared with some 450,000 in June.

The timing of change-over periods is still somewhat indefinite and will depend to some extent upon how long present strong demand for this year's cars is maintained. It is well known that the great majority of companies will introduce more extensive mechanical and style changes than was the case a year ago. Hence the coming factory shut-downs will average longer than they did a year ago, probably ranging from three to as much as five weeks, depending on the circumstances of the individual companies. Since there are considerable variations in the respective positions of the different manufacturers in relation to current consumer demand, dealer stocks, scope of new model changes planned and time needed for change-over, it appears a safe assumption that the shut-downs will be staggered to some extent, thus tending to soften the relapse. Motor production, however, will be a cumulatively waning business factor during August and possibly into September.

Even approximate measure of the effects of the bonus distribution has proved somewhat baffling. When the ex-service men were granted loans up to 50 per cent of the face value of the certificates in 1931 it was argued that the general deflation so completely nullified the resulting trade stimulation as to make it invisible. The reverse appears to be almost equally true at present. That is, the volume of trade was rising before the bonus cash began to flow out and there has been no recognizable bulge that can be attributed to the bonus. Since June 15, however, there has been a daily average of around $55,000,000 in bonus bonds turned into cash. Some part of this has gone to extinguish indebtedness but it is an inescapable assumption that, whether visible or not, measureable or not, the amounts spent and still being spent daily are a supporting trade factor which will exert its influence for many weeks to come.

Indeed, the circulation of this cash at first, second and third hand, will undoubtedly continue to play a part in business activity throughout the third quarter, if not throughout the second half of the year. It is, accordingly, a reasonable surmise that third-quarter business recession will be less sharp than it would have been without this influence.

Effect of Drought

Above we have discussed trends which are fairly clear. Unfortunately, the business consequences of the drought are far more difficult to appraise at this time. It is still possible for a goodly part of the damage to be repaired in the event of normal rainfall in the affected areas within the next fortnight. Given that relief, the present alarming accounts will quickly disappear from the front pages of the newspapers. On the other hand, should aridity and heat persist throughout this month there will be no question of serious economic loss, regardless of the fact that the direct effects would be softened to some extent by the outpouring of Federal relief funds in the stricken areas.

The probable loss in farm income, in trade and in the volume of freight to be carried by some of the railroads would be only part of the story. Prices of many foodstuffs would mount sharply. This would necessarily tend to curtail the public purchasing power available for goods other than food and it would likewise encourage labor agitation and strikes.

As to this, however, it all depends on the weather—and that is outside of our forecast.

Nevertheless, the fact remains that the present human interest centered on the drought news is out of all proportion to its actual economic importance. The damage is not yet as serious as that which resulted from the devastating drought of the summer of 1934 and that apparent disaster failed to have any vital influence on the course of aggregate business activity. Even in the directly affected areas farm income, retail trade and demand for farm equipment and automobiles held up remarkably well and within relatively few months resumed the underlying recovery. Steel and motors, not drought, will determine the early business trend.

Competition is the Life of Capitalism

Price Regulation, Either by Government or by Industry, Means Death to Individual Enterprise

By Burton K. Wheeler

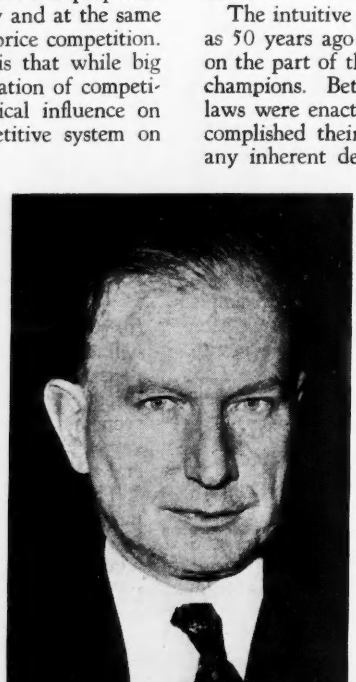
U. S. Senator (Democrat) from Montana

Chairman, Senate Interstate Commerce Committee

For some years I have been much impressed with the anomaly of the policy of many of the leaders of the industrial world of simultaneously contending for the perpetuation of an individualistic capitalistic society and at the same time striving strongly for the abolition of price competition. It has seemed to me that the net result is that while big business is giving lip service to the preservation of competition, it is throwing its tremendous practical influence on the side of the destruction of the competitive system on which it rests.

Our American society is based on competition, but the actual fact is that in these latter years we have been giving it merely verbal honors while we have at the same time been denying it in practice. Unless prompt action is taken to defend the competitive system we are going to wake up one of these days and find that price fixing, not only by manufacturing industry but by agriculture, labor and every other section of trade and industry, has crowded the competitive system off the stage. Of course, I realize that with the present personnel of the Supreme Court there must be a Constitutional amendment before anything can be accomplished toward legally fixing prices for either agriculture or labor, but if we have left our old moorings and gone over to the idea of stabilized prices, it is only a matter of time until the new system will be legally established.

It is a fact that any attempt to write a business history of the United States would of necessity be largely given over to an account of the constantly recurring attempts on the part of business men to stifle competition, the active existence of which is the source of their successful careers. They seem to have wished to repress competition fully as much by using certain formulas for fixing prices as by uniting into such huge companies as Standard Oil and United States Steel.



Wide World Photo

Senator Wheeler

The intuitive instinct of the people was alarmed as much as 50 years ago by these tendencies to destroy competition on the part of those who were supposed to be its hereditary champions. Between 1890 and 1914 the so-called anti-trust laws were enacted. These laws, unfortunately, did not accomplished their object, but that outcome was due not to any inherent defect in the laws, but to the fact that the Supreme Court through a process which it called "judicial interpretation" came to the conclusion that Congress did not really mean what plainly appeared on the face of the laws. It will be recalled that when the Government tried to dissolve the great Standard Oil trust, the Supreme Court, while conceding that it was tantamount to a restraint on trade of a nature forbidden by the anti-trust laws, declared that Standard Oil put only a "reasonable" restraint on trade and came to the general conclusion that Congress did not mean to make "reasonable" monopolies unlawful.

Since the "trust busting" days the problem has not abated, but on the contrary has become more acute. Industry after industry has been falling under the domination of a single company or a small group of companies whose economic power is sufficient to eliminate price competition. To illustrate: The law requires the Secretary of the Interior to advertise for competitive bids when articles are purchased for the use of the Government in both the regular and emergency work under his direction. When the bids are submitted from various companies all over the country he is required to accept those which are lowest. During one nine-month period the Secre-

tary received 257 different bids from 48 industries where the price submitted on each article was exactly the same from every company bidding. In other words, 48 of the industries submitting bids have some sort of agreement among themselves whereby they fix the price for their product, making it the same for all producers, regardless of cost of production and regardless of transportation costs to the place of delivery.

The vicious result of any system of price fixing is that the fixed price attempts to guarantee to every one in the industry a return for his product which will enable him to make a profit. If the producer with high costs can make a profit, the necessary result is that the producer with the low costs is making profit out of reason, and the public is paying a price that is too high. This price fixing inevitably leads to waste and inefficiency.

But the fact that price fixing industries may force the public to pay more for their products is not the most serious result. It is that price fixing rigidifies the economic structure and destroys the reason for being of the present system. In 1929 prices were high, and were rapidly going higher. When the crash came, prices in the highly-competitive fields came down. The farmer's prices hit a low point that did not permit returning his costs of production. Labor had to take a very general slashing in wages. In fact, all prices which were tied up to supply and demand were reduced to meet reduced purchasing power. But this was not true in the price-fixing industries. Those industries which were able to agree on prices did not reduce those prices to any extent. In steel, cement and most kinds of building materials prices remained on their same high level and the balance of national price fabric was thus broken.

> ***"If price fixing is necessary to our economic life, then we should face the facts and know what we are getting into. I am not ready to believe that the American people are willing to abandon their fundamental business privileges. I am not ready to believe that the American people are yet willing so radically to change their form of government. Certainly, I will never believe that the people should have their form of government changed in this way without being fully aware of the processes which are bringing about the change."***

Destroying Buying Power

Obviously such a policy deprives the public of the capacity to buy these goods. One result was that building almost ceased during the depression. Contractors, architects, dealers, carpenters, bricklayers, plumbers and laborers engaged in the building trades were thrown out of work because the public could not afford to pay for the materials and construction. In the cement industry, one of the most notorious offenders, where prices have been kept up unreasonably, sales to industrial users dropped off to such an extent that for a time over half of all the cement produced was being used by agencies of government. And although men were working at subsistence wages on these relief projects with money furnished by the taxpayers to relieve unemployment, the cement industry was able to exact every penny of its exorbitant prices from the Government.

The theory of a competitive society embraces the proposition that when purchasing power in the hands of the consumer drops off, prices must be reduced to a point where people will again be able to buy. It is based on the knowledge that in most commodities, lowered prices will stimulate volume of sales. Intelligent selfishness should have pointed this out to the industrial leaders of this nation. *Certainly I agree that it is asking a lot of any business man to reduce his price to a point where he may at first suffer a loss, but many examples can be shown where just that policy is good business. At any rate it is the backbone of a competitive system and must be carried out if capitalism is to survive.* Certainly we should never have been so slow in recovering from this depression had all prices been flexible enough to reach the level of demand. If even a very small corner is held high enough, the whole balance upon which the smooth functioning of the system depends is lost, and that balance will remain lost until prices and demand meet.

If the price fixing privilege is to be continued as the policy of the industrialists of this nation, and with no responsibility to the public, sooner or later the people will demand that business be completely policed by the Government. The profit motive cannot be trusted to make private individuals exercise such life-and-death power in the public interest. Also, we cannot allow price-fixing in industry without agriculture being placed in the same position.

The implications of ultimate price fixing for trade and industry by either the Government or private groups will radically change our form of government.

The Government inevitably would be forced into a system of regimentation of industry that would not only be onerous to the people, but that might very well be inefficient. Certainly the greatest totalitarian, bureaucratic state the world has ever seen would be the result. *Price fixing by private groups will inevitably lead to price fixing by government.* It will be a Fascist state in every sense of the word.

I will admit that the competitive system is not gentle and that as we progress under it, as new machinery is invented, as new forms of transportation develop, those plants which formerly made a profit may no longer be able to exist. But this is progress—this is change. It is upon this inevitable weeding out that our progress has been built. When the weeding out comes some men will suffer a loss but no group or individual is responsible for causing this loss; it is caused by progress and the system itself. Improvements come, and the system makes the changes. Through price fixing many industries try to halt this progress by keeping their prices up so high that obsolete and ordinarily unprofitable factories can make a profit. The benefits of new inventions and of labor-saving devices are not passed on to the public in the form of lower prices—as they should be—but are drained from the new plants to pay for overcapitalization and inflation of real values. This is true in the steel industry, in the cement industry, and in many others. It is one of the primary reasons for our present unemployment.

Cutting Off the Dead Branches

Naturally, when a new machine is developed it throws thousands of men out of work. Unless the benefits and savings of the new process are given to the public there is no chance to re-employ the thousands of men whose purchasing power is suddenly cut off. This is naturally the way the competitive system lops off the dead branches from our industrial tree. It would be utterly useless to give the power to lop off these dead branches to any government agency because it would not have the courage nor the wisdom to

(Please turn to page 441)

Broader Fluctuations on Smaller Volume

S E C Report to Congress Foreshadows Regulations Making for Still Thinner Markets

By Alfred C. Brumley

THINNER and thinner security markets, an ever-widening spread between bid prices and asked prices and larger fluctuations in price on a smaller volume of stock is the road along which we have been long progressing. For years the New York Stock Exchange enjoyed the distinction of being by far and away the broadest security market in the world. Among the wonders of the boom in the late twenties was the number of stocks that it was possible to buy and sell in ten, twenty and even fifty thousand share lots without its resulting in more than a ripple. Since the passage of the two securities acts of 1933 and 1934 and the birth of the Securities and Exchange Commission, however, conditions have changed completely. Over the past two or three years, there have been fluctuations in price probably as broad as they ever were, but they have been accompanied by a volume of transactions distinctly subnormal according to former standards.

Causes of Thin Markets

Many things have contributed to make our security markets thinner. The prohibition against pools, the illegality of manipulation, provisions of the law that make insiders responsible to their stockholders for security profits presumably made by inside knowledge, stricter margin requirements, and the fact that thousands and thousands of shares of stock have been put away in strong boxes as more-or-less permanent investments, are among the causes of wide price fluctuations on a small amount of stock.

By and large it must be admitted that the majority of the man-made laws and regulations that have brought about the thinner markets of today have been well conceived and carried out. However, despite merit or its lack, they represent changed conditions for the investor to which he must adjust himself.

Of recent news concerning S E C, the most important has to do with the segregation of brokers and dealers on the floor of the New York Stock Exchange. Summary segregation of brokers and dealers was one of the things urged when the Act of 1934 was in process of passage, but when finally enacted the law required only that S E C report to Congress on the matter and it is this report that has now been made. Although there is no question that the carrying out of the Commission's recommendations will be adverse to some of those who deal in securities, by and large the official attitude is a reasonable one and is nothing about which the average investor should become alarmed.

In the first place, it should be understood that S E C is not proposing that Congress enact additional legislation, but that it act under the broad powers given by existing law. What the Commission now wants to do is to curb floor trading—the trading done by members of the Stock

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Some Commonwealth & Southern changes hands

Exchange on the floor of the exchange for their own account. The stated reasons for wanting to do this are: (1) The combination of the broker and dealer function involves a conflict of interest and (2) There exists a type of dealer activity which exerts an undue influence on prices, increases speculation and interferes with the effective fulfillment of the brokerage function.

With the first of these reasons no quarrel can be picked; there is undeniably some conflict of interest in the broker/dealer combination and, although the customer may infrequently suffer from its abuse, the fact that abuse is possible makes the elimination or alleviation of such a condition desirable. The second reason is more vulnerable to attack. The Commission, however, has foreseen the obvious direction from which such attack would be made and makes a convincing answer. It freely admits that the elimination of the broker/dealer combination will curtail the liquidity

of the market, but goes on to state that there is a mistaken emphasis upon this point. Moreover, the Commission reveals that its studies show that floor trading, on the average, tends to concentrate in stocks which are already active and to exaggerate existing trends. In other words, it is the contention of the Commission that a floor trader, seeing unusual activity in some stock on the upside, rushes in to buy for his own account and thereby balloons the upward movement. In the opinion of the Commission this is not a desirable kind of liquidity.

On the other hand, it cannot be denied that there are many board-room and other speculators off the floor of the exchange who, seeing a burst of activity in some stock, rush in to buy in the hope of gaining a point or two. It is to these that the floor trader sells, for he has had previous knowledge of the development of the movement. If the floor traders' stock were not available to put a damper on bullish enthusiasm, might it not be supposed that the upward fluctuation would be wider? While this is plausible, frankly we think that the Commission has the better of the argument, although only time can settle the matter finally.

It is the easier to endorse the attitude of S E C in regard to floor trading because of the care which has been taken to make the proposed reforms anything but all-embracing. This is so contrary to the general New Deal policy of killing the whole flock in order to eliminate one or two black sheep as to be quite refreshing. For example, S E C proposes that a floor trader, having designated the category in which he wishes to operate, still be permitted to trade as now, except that at all times his account shall be fully margined. Also, a floor trader is to be permitted to change his status to that of broker and a broker to that of floor trader on reasonable notice. As for those who select to operate in the capacity of broker, they may initiate trades *off* the floor of the exchange if fully margined. However, S E C suggests that should it be desirable to reduce trading activity still further, a firm of commission brokers and its component partners might well be restricted to trading solely for cash.

The valuable functions of the specialist are recognized, rather reluctantly it is true, but nevertheless they *are* recognized. The specialist is to be permitted to continue acting both as a broker and as a dealer for his own account, although always subject to the general rule that activities

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North American is active at higher prices

shall be restricted to those necessary for the maintenance of a fair and orderly market. Incidentally, it is interesting to note that the specialist was found more often to trade for his own account *against* the trend whereas, as has been said, the floor trader more often went *with* the trend.

Nor is it S E C's present intention to interfere with the floor trading activities of the odd-lot dealer, whose function it is to buy and sell less than a hundred shares and then to even out his books by buying and selling full lots. Finally, no recommendations are made for the segregation of brokers and dealers in the over-the-counter market. The Commission's report points out that there is the same conflict of interest in the broker/dealer relation in this market as exists on the stock exchanges. S E C goes on, however, to frankly admit that it is not as yet ready to deal with the situation in any comprehensive way and in the meantime that it will content itself with a continuance of the war upon fraudulent practices in the over-the-counter market.

The foregoing constitutes a brief outline of what S E C wants to do and what it does not want to do at the present time in regard to broker/dealer segregation. Nothing, however, has been said of how the recommendations are to be carried out, or whether indeed they can be made effective. The Commission has two possible courses: the first is to draw up a set of rules and issue them as its own; the second is to persuade the exchanges to amplify their own rules in the direction desired.

To Avoid Inflexibility and Litigation

There are several reasons why the first of these courses will be avoided if possible. If the Commission itself draws up a set of rules, they will have to be of general application and thus may not meet adequately the varying conditions of the different exchanges. This the Commission has forseen and hints at a possible lack of flexibility should the making of its own rules be the course ultimately determined. A more important objection, however, lies in the fact that should S E C promulgate regulations to which there is strong opposition, the matter is immediately thrown into the courts. This means suits and countersuits and all the legal whatnot, of which everyone is becoming very tired. Above all it means delay. On the other hand, should S E C persuade the exchanges to incorporate those rules which it deems necessary in their own by-laws, court arguments as to their legality would never come up.

Another point: S E C probably is desirous of avoiding as many legal angles as possible until its own status is more nearly defined by the ultimate disposition of the suits that are now pending. The Securities Act of 1933, which may be distinguished from the Securities and Exchange Act of 1934 because it covers in general the buying and selling of *new* securities in contrast to the Act of 1934 which covers dealings in existing securities, is being given the "Constitutionality Test" by J. Edward Jones. A number of lower courts have ruled against Mr. Jones but the matter has yet to be decided by the United States Supreme Court. A number of suits have been brought to test the validity of certain powers vested in S E C under the Securities and Exchange Act of 1934, but it is doubtful whether any of them will result in a final decision comprehensive enough to cover all ramifications of regulating the issuance of securities and dealings therein. More specifically, it is doubtful whether pending cases will settle the matter as to whether S E C has the power to do what it wants in the matter of broker/dealer segregation. Thus it is that S E C will probably open negotiations with the representatives of the New York Stock Exchange some time this fall. If it is possible to come to an agreement with this exchange, it will be surprising if there are any strenuous objections from other exchanges.

Should the Commission succeed in carrying out its present intentions in regard to the segregation of brokers

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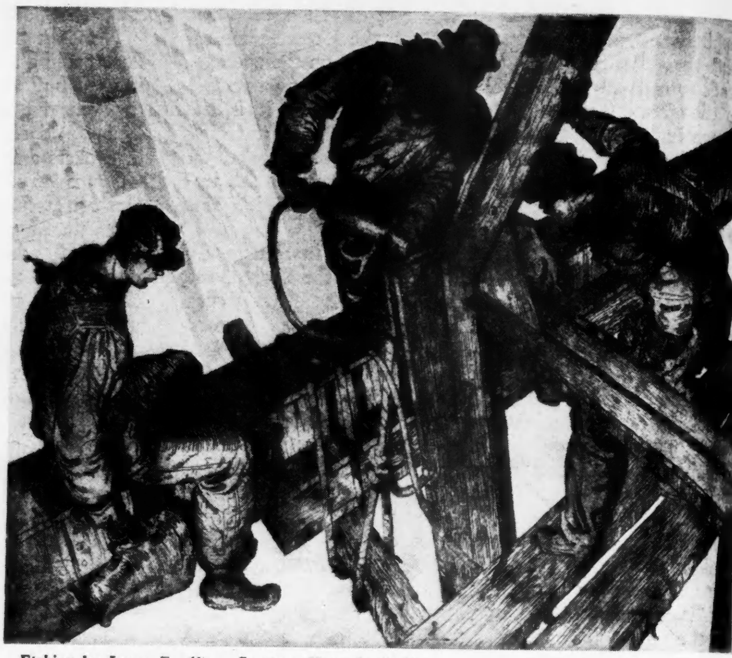

Etching by James E. Allen, Courtesy Kennedy & Co.

A Long Upswing in Building Impends

All Types of Construction Are Gaining—Trend Indicative of Long Term Business Stimulation

By TRUMAN S. MORGAN

President, F. W. Dodge Corp.

THE construction industry is staging a recovery. Evidences of expanding activity are no longer wanting. Spotty improvement has given way to general gains. But more important, still, is the prospect that further increases loom.

In the 37 states covered by our organization construction contracts awarded touched a new low in a generation about the middle of 1933. The total volume for the first six months of that year had dropped to only about 430 millions. This was a decline of over 200 millions from the record of the first six months of the previous year, and of 2½ billions from the total during the corresponding six-month period in 1929.

Since the middle of 1933 the trend has been steadily and consistently upward. With the aid of the emergency program of the Federal Government, the total construction volume for the first half of 1934 doubled the first half total for 1933. For the first half of last year, there was a substantial recession in total construction which can be accounted for, in large part, by a temporary curtailment of publicly financed operations. Private enterprise did not appear very actively in evidence until the beginning of 1935. For last year as a whole the total of more than 800 millions for private construction alone exceeded the 1934 figure by almost 50 per cent. For the first six months of 1936 private construction in the 37 states continued to improve, scoring a total of some 600 millions or more than 60 per cent greater than the corresponding six months of 1935. Public work, too, was accelerated during the first half of 1936;

a gain here over the initial half of 1935 of more than 100 per cent occurred. Together, both public and private construction in the first six months of this year totaled almost one and a quarter billion for a gain of about 75 per cent over the total for the first half of 1935.

When we take into consideration the vast amount of distressed properties thrown back into the hands of mortgage holders during the period of recession, and the corresponding shrinkage of nearly all values, the general improvement in private work seems little short of phenomenal. In other eras of depression the construction industry has usually led the way to recovery, but this time an undigested market caused investors to hold back until foreclosed properties could be largely absorbed. There is still a long distance to travel on the road back to the level of 1929 or to 1928 which happened to be the peak year for construction. But when we realize that the 1936 total will likely be double that of the depression low of 1933, we can readily see how far we have come since the memorable eclipse of 1929.

Index of Returning Prosperity

At the present time the investor naturally is looking for the field that gives best promise of security and enhancement in values and while our own background might be such as to lead to a biased opinion, we firmly believe that the upward tendency, sustained and constantly increasing during the past two years, is most certain to carry on for several years to come. Certain it is that there has accumulated a shortage in housing accommodations during the extended period of inactivity and this is evidenced by absorption of available space and a tendency toward stiffening in the rental rates in most localities. Along with this there has been a most heartening upturn in industrial activity which has encouraged not only the modernization of many existing plants but also the extension of facilities as well as new ventures in the manufacture of capital goods, always a sure index of the return of prosperity.

This is best illustrated by the volume of factory construction started during the first six months of 1936. Here we find an increase of more than 100 per cent over the rather substantial amount of the same period in 1935. These increases are particularly marked in iron and steel, paper and pulp, and petroleum products, although the entire list with the exception of leather, shows most substantial gains.

Commercial buildings, too, have shown an appreciable change for the better during the first half of 1936. Public warehouses, stores, office buildings, garages and service stations have been more actively undertaken and modernized than in five years, with all indications pointing to a continuation of the current tendencies.

Boom in School Building

The volume of school building, largely because of the Federal program, has assumed near-boom proportions during the early months of the current year, running more than three times as great as in the first half of 1935.

Hospitals and institutions have shared in an important degree in the general gains, while social and recreational facilities such as auditoriums, halls, parks and park buildings have also shown material gains.

Perhaps the most salutary gains have occurred in the one-family house field. Some there are who saw the passing of the small house before the unrelenting march of the apartment house. But the facts for 1935 on this score tell a different story.

Last year the single-family house accounted for about 76 per cent of the total expenditures for the erection of new housing units. The ratio for 1935 becomes the more important when considered from the standpoint that it represents a total of some 55,000 new houses in the amount of almost $320,000,000 for the 37 states east of the Rocky Mountains.

Current records on new residential building indicate that last year's proportion for the one-family house has been slightly bettered during the first six months of 1936; nor is there now any reason to believe that for the full year 1936 any material lowering in the ratio under current levels will be registered.

Single-family house construction falls into three rather distinct categories:

(A) Those dwellings erected by individuals for their own occupancy.
(B) Those constructed by the so-called speculative home-building companies who erect two or more dwellings at one time, for sale.
(C) Those which are erected by individuals, usually small mason or carpenter builders, who build one house at a time for speculative sale or rent.

In each of these categories the gains which set in during 1934 are broadening, giving a basis for believing that still further increases may be expected as improving business conditions bring fuller employment and larger incomes.

Up to the present time the Presidential campaign has had little appreciable effect on the building business. There has been some easing up of the extreme static conditions that have prevailed among loaning institutions. Banks still have a plethora of funds awaiting safe and favorable investments. Interest rates remain at the new low set at the time when the uncertainties of the hour demanded substantial reserves and great caution of those administering funds. Material and labor costs, except in isolated districts, have not responded to the pressure exerted on other lines, but the architect is faring better by reason of the increasing number of structures that command his services

Architects Again in Demand

According to our records, during 1933 only 57 per cent of the total construction volume, excluding factories and civil engineering, was architect-planned. By 1935 this percentage had increased to about 68 per cent and during the current year to date the proportion has gone to nearly 75 per cent. This naturally indicates a persistent trend to larger and more important types of buildings.

The Federal P W A program has undoubtedly had a great influence on the general situation aside from the large volume of operations launched under its own sponsorship. However, current records show for the first time since 1933, except for a few months during 1934 and 1935, that the volume of private projects have each month since February of this year exceeded the total of public projects by constantly increasing amounts. There is a possibility, that the current volume of private work will suffer a temporary reversal when the impetus of federal sponsorship is withdrawn, when the huge appropriations made by Congress are exhausted. The real test will come when the construction industry has to rely on its own resources for sustenance. Here again it would seem much depends on the future program of the present administration or of that which may succeed it.

It is pretty generally believed by our industrial leaders that if the straight-jacket which has circumscribed enterprise is removed, and business be permitted to function without the restraints and uncertainties that have prevailed, capital expenditures would in many instances be doubled. These captains of industry believe that needed construc-

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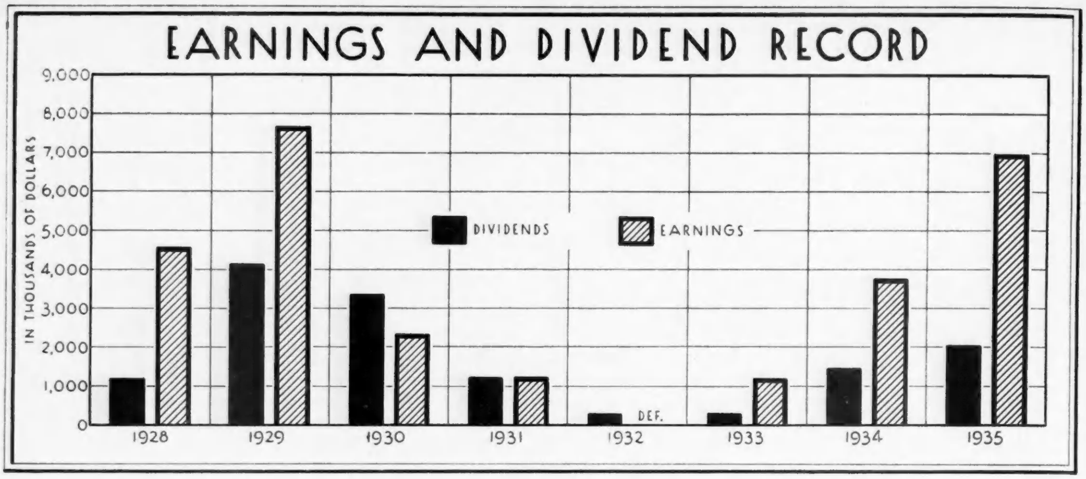

Borg-Warner Makes Diversification Pay

Extensive Line of Industrial Appliances and Household Products Bolsters Earnings and Decreases Dependence on Automobile Industry

By LAURENCE STERN

IF you drive an automobile—and who doesn't?—the chances are that there are built into it several vital parts manufactured by the Borg-Warner Corp.—very likely the clutch or transmission or timing chain or all three, perhaps the carburetor or the radiator or the universal joints, maybe even an "over-drive" transmission or an automatic gear-shifting gadget.

This is an intensely competitive business, as is everything connected with the motor industry. Here no one sleeps comfortably behind the protection of a tariff wall or under the blanket of monopoly. Everybody hustles—or goes out of business. There is relentless pressure for rock-bottom price and increased quality of products. On the one side the independent fabricator of automotive parts has little or no control over his raw materials. On the other side he must bargain with some of the smartest and closest buyers in the world. His most vital market centers in the "Big Three" of motors—General Motors, Chrysler and Ford. In varying degrees all three have, or seek, enough self-sufficiency in the manufacture of parts to put a brake, actual or potential, on the price of parts purchased from accessory makers.

Moreover, the accessory maker may at any time fall victim to some radical technological change. He may have spent much money and effort perfecting some new automotive device, only to see it outmoded when a competitor comes through with a still better idea.

For the above reasons, together with wide seasonal fluctuations in volume and earning power, stocks of motor accessory companies have always been considered speculative. To make money consistently in this field a company must have a first-rate management, alert, smart, hard-driving; a first-rate engineering and research staff; a first-rate selling organization.

The record supplies factual proof that Borg-Warner is such a company. Organized in 1928 as a merger of four long-established accessory concerns and further expanded by various subsequent acquisitions, the corporation has never had a manufacturing loss, the single reported deficit of 1932 having resulted from a conservative depreciation policy consistently maintained.

Last year Borg-Warner had a bigger proportion of the available automotive market than ever before and net profit of $6,982,732 was not much less than double the

$3,760,676 earned in 1934. It was by far the best showing since 1929 when record high of $7,682,590 was earned in the motor industry's banner year.

In the first quarter of this year the company earned $1.34 per share on the 1,150,957 common shares outstanding, excluding stock held in its treasury. This compared with $1.15 per share on 1,150,926 outstanding shares in the March quarter of 1935, a gain of approximately 16.5 per cent. In the active second quarter of last year $1.34 per share was reported. For the quarter recently ended, we believe the profit will prove to have approximated $1.60 per share, although, of course, the official figures are not available at this writing.

Reflecting the strong upswing in earnings, the stock, which is now on a $3 dividend basis, reached a high this year of 83½, comparing with a 1929 high of 86⅞. The present price is approximately 75, at which the dividend yield is 4 per cent. At the depression bottom in 1932 this issue sold at only 3⅜. In 1933 its low was 5½ and the high was 22¼. In 1934 it sold as low as 16⅛ and did not top 31⅜. In the spring of 1935 it could have been bought as low as 28¼.

Is Anything Left?

Naturally the question that will arise in the mind of any person considering purchase of this equity is whether there is anything left in the stock after so great an advance, whether a stock still chiefly dependent on the demand for automotive accessories is or is not adequately priced on a 4 per cent yield basis.

This analysis concerns itself largely with those questions, but first, for the sake of perspective, one must bear in mind that whether a stock is high or low depends not alone on the market price, but on the relationship between that price and the per-share earnings. If price and earnings both have doubled in a given period, obviously there has been no raising of market appraisal. At the close of 1934 Borg-Warner common sold at 10.2 times the 1934 earnings per share. At present it is selling at 12.6 times the 1935 earnings per share. In terms of price-earnings ratio, the market advance in eighteen months has been approximately 23 per cent. That is not an excessive increment of speculative hope over a period which has seen the first sustained and confident business recovery since the depression.

Nevertheless, no stock is a sound buy merely on the basis of past performance or even that of current earnings. There is a valid basis for taking a position in Borg-Warner only if one is convinced from all available evidence that there is a probability of still further growth in volume and earnings over a period of time. If the company were *exclusively* a manufacturer of motor accessories this analyst would be forced to the conclusion that at a market price yielding only 4 per cent and despite the probability of at least a moderately larger dividend, the issue is not particularly attractive, even allowing for the current low return on money.

But this brings us to the most significant development in the Borg-Warner picture: namely, the fact that this company is increasingly a manufacturer of non-automotive products—products such as electric refrigerators, washing machines, cooking ranges, oil burners, air-conditioning equipment, specialty steels, industrial equipment and machine tools. In short, the Borg-Warner management, headed by the alert C. S. Davis, president, the veteran accessory maker, G. W. Borg, chairman, and Howard E. Blood, who was largely responsible for development of the Norge refrigerator business, was smart enough to realize fully the limitations and risks inherent in the motor accessory field and to take effective off-setting measures through the avenue of increased product diversification.

It was not a novel idea. Other accessory makers have long realized their need of greater diversification and have sought to get it. Briggs Manufacturing, for example, supplements its motor body business with a new line of plumbing equipment and Stewart-Warner goes in for radios and electric refrigerators, along with automotive accessories. But no company in this field has either gone as far in diversification as Borg-Warner has or made it pay so well.

The importance of this transition in relation to the volume of business, earning power and the future security and stability of the enterprise can be readily understood from the fact that in 1929 non-automotive business accounted for only 15 per cent of the Borg-Warner volume, that this proportion had increased to 35 per cent by the close of 1934 and that 1935 saw it increase further to 40 per cent. These changing proportions reflect no shrinkage in the company's automobile market. On the contrary, sales of motor parts have shown sharp gains over the past three years, but the non-automotive products, especially electric refrigerators, have shown even larger gains.

This remarkably broad transformation in the character of the business, effected chiefly in a period of depression, must be put down as a notable industrial performance. Moreover, so far as it lies within the power of the management, this trend toward decreasing dependence on motor parts will be carried further. It is the hope and plan of Borg-Warner that ultimately the motor accessory market—even though maintained at its present level or enlarged—will constitute no more than a third of its business. At the recent rate of progress along this line it may be possible that non-automotive products within two or three years will supply half of the volume.

In any appraisal of Borg-Warner's money-making ability it is pertinent to consider what it has done with its "Norge" refrigerator. You didn't hear much about this box in 1929, in which year Borg-Warner took over the Norge

Making Borg-Warner gears

Corp. Like automobiles, this is an intensely competitive business. It is open to all comers and many companies were in the run long before Borg-Warner—but by 1934 the "Norge" was among the first five in this field and today it is among the first three, topped by "Frigidaire," possibly topped by the General Electric box but, if so, by a relatively close margin.

The company's own figures show that "Norge" units sold during the first five months of this year totalled 167,782, a gain of 38.7 per cent over the corresponding period of 1935.

Some of Borg-Warner's Big Customers

General Motors	*International Harvester*
Chrysler	*Allis-Chalmers*
Ford Motor	*J. I. Case*
Studebaker	*Deere & Co.*
Packard	*Mack Trucks*
Hudson	*Federal Motor Truck*
Nash	*White Motor*

It would therefore seem a reasonable guess that such volume for the full year will approximate at least 250,000 refrigerators. In the trade it is estimated that the total 1936 market for refrigerators will approximate 2,200,000 units, an increase of 18 per cent over 1935. Considerable credence may be given that estimate, for it was made by Mr. Blood, president of Borg-Warner's Norge division, on the basis of a nation-wide marketing study covering many thousands of consumers, dealers and salesmen, and because similar estimates for 1935 and 1934 proved unusually accurate. If that total is attained, "Norge" boxes this year will have approximately 11 per cent of the total market.

Sales of all Borg-Warner household appliances in the first five months of this year totalled 253,217 units, a gain of 57 per cent over the same period of last year. It would seem a reasonable assumption that they will top 500,000 units for the year, even with seasonal decline in refrigertor sales during the last quarter. The dollar volume of this Borg-Warner household appliance business, obviously running into many millions a year, is not reported.

From a longer term point of view, the question of a saturation point in the market for such appliances must be raised. This is a complex and controversial problem. The automobile market some time ago became overwhelmingly a replacement market. Refrigerators, washers, stoves, oil burners and other such products have a much longer useful life than an automobile and in the mind of the owner they are not "dated" by subsequent mechanical or style changes in nearly the degree applicable to the automobile.

As a generality, therefore, it may be said that the replacement market in the household appliance field can not be as profitable as that in automobiles and that, as in any industrial field, the period of rapidly expanding demand will be the most profitable. Nevertheless, for an indefinite number of years there will be a vast market for such appliances.

By the end of this year over 8,000,000 mechanical refrigerators should be in domestic use. Relative to some 20,500,000 wired homes in the country, this is approximately a 38 per cent saturation of the present maximum original market. Mr. Blood believes that whereas most appliances reach saturation at 50 per cent of the number of wired homes—at which point the replacement phase begins—the special merits of the mechanical refrigerator are such that it may be possible to attain a 60 per cent saturation. On this basis, after this year, there should be a market for some 4,600,000 refrigerators, without allowing for population growth, revival in residential building and increase in number of wired dwellings. Beyond that point, which may be reached in several years, it will remain to be seen to what degree the industry can capitalize upon obsolescence in creating a replacement market. To a small extent at least, the beginnings of a replacement market can be seen even now.

In considerable measure, washing machines already are in a replacement phase. Modern heating apparatus, however, is probably at considerably less than 10 per cent of saturation and unquestionably has a broad expansion phase ahead of it. Particularly in relation to partial winter air-conditioning and even more so in relation to all-year air-conditioning, this market is in its infancy.

Out of all major depressions there comes—at least it has been so throughout the past—a further step forward in the American living standard. Today many factors point to a huge buying wave in household equipment of all kinds. Recovery of public purchasing power and of confidence is part of it. Accumulated demand, deferred during the depression years, is part of it. Finally, the very success of the modern refrigerator is a business builder for other appliances. The consumer notes with satisfaction the great advantages of his electric refrigerator. It sets him thinking about the advantages of an equally modern oil burner or range or washer or ironer.

The simple arithmetic of Borg-Warner's performance in motor parts and in electric refrigerators can be accepted with considerable assurance as proof of the company's ability to get business and handle it profitably. We see no reason why this proven ability should not find increasing reflection in the company's various other activities.

At first glance the Borg-Warner organization may seem somewhat incongruous in its marked decentralization of division activities. The majority of the units were long established, successful companies, non-competitive with each other. Each has its own set of executive heads, each its own selling organization. Yet there is a common theme

A "Norge" manufacturing operation

running through the combined enterprise in that each of the manufacturing divisions is engaged in fabricating metals—chiefly steel—into useful products. Hence there is an economic advantage in centralized supervision of highly

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Which Groups Offer Best Possibilities for Income and Price Appreciation?

Investing by Industry

By James L. Sherbrooke

THE investment of money is distinctly an individual problem. It can be done in scores of different ways with a view to attaining as many different objectives. Some want safety of principal above all; some, being obliged to live upon the return from their investments, must put safety in second place and concentrate upon yield; others, fortunately situated in assured positions, can forego the income of today in exchange for the appreciation of the future. There are countless variations of these themes, but let us assume that an investor has acquired a sufficiently large backlog of "money-safe" investments and that he is now looking around for something with which to participate in the expected further improvement in general business. What will be his logical procedure—for it is, of course, essential that so important a matter be settled by plan?

In actuality he is more than likely to pick up a stock here and a stock there, according to the whim of the moment, and end finally with a common and preferred stock portfolio that is an investment hodge-podge. He will be overconcentrated in one line and insufficiently represented in another; among the various issues themselves, standards of quality will be awry. Because of such hazards, it is better, from any viewpoint, to follow a comprehensive plan; list the country's major industries, ascertain at what stage of the recovery cycle they stand and then, only when the unfavorably situated have been eliminated, is it wise to move on to the selection of specific issues.

It will be found that industries fall into a few clearly defined categories. There are those that have taken but a small part in the recovery achieved so far and for which the future holds out little hope. There are those that have done reasonably well in the past, are doing reasonably well at present, but which show no signs of dynamic expansion in the future. There are those that have made great progress in the recent past, but for which one can see still further gains. And then there are those which recovery has touched only lightly so far, but for which the favorable prospects are unusually well defined.

There will be, of course, certain stocks in the first categories which can be counted upon to move against the general trend. They will, however, be under a severe handicap and, as soon as their special advantage wanes, their decline may well be precipitate. Thus, it were better for the prospective investor to confine himself largely to those industries which have made progress in the past but for which greater gains can be foreseen and to those which are just beginning to participate in the recovery movement. There follows below a number of industries which fall in with these requirements, together with specific securities from which it should be possible for "an investor in further recovery" to make selections in accordance with his own position and needs.

Chemicals Have Broad Possibilities

Speculative Common Stocks

Name	Recent Price	Dividend	Current Yield
Catalin Corp. of America	$11	..	...
Newport Industries	10	..	...

Common Stocks for Income and Price Appreciation

Name	Recent Price	Dividend	Current Yield
Am. Cyanamid "B"	33	0.60	1.9
Heyden Chemical	45	1.00*	2.2
Du Pont de Nemours	155	3.60*	2.3
Union Carbide & Carbon	94	2.40	2.5

* Plus extras.

Probably the best example of an industry which has enjoyed its full share of recovery and which is likely to go on doing so is the chemical group. The fundamental strength of these companies is derived from the fact that they must of necessity contribute to recovery no matter where or how it occurs and at the same time new products and processes provide them with dynamic expansion over and above what they gain as providers of raw material to general business. Pages could be written of the new products and processes developed over the past few years—the tremendous gains made by plastics, the revolution which is occurring in the paint industry, new synthetic fabrics, the progress made in rayons, new dyes, the new solvent processes for refining petroleum, afford but a glimpse of what has been, and is being, done.

With such a background it is no wonder that the stocks of the chemical companies are held in high esteem. Indeed, so high are the better chemical stocks selling in relation to their current earning power and dividends that it is perfectly logical to raise the point as to whether they are not *too* high. While admitting that one can pay too much for even the strongest company with the rosiest of prospects, nevertheless one must remember that the chemicals have always "sold high" and always will so long as they are under the dynamic influence of new products. Today, the earning power of this group is very distinctly trending upwards and there is not the slightest reason to suppose that their higher earnings of the future will be appraised any less generously than present earnings. Thus it is that chemical stocks bought today should provide the investor with an excellent medium for participating in an extension of the recovery. The companies listed above provide a choice of investment caliber and a stake in various divisions of a growing industry.

(Please turn to next page)

Rising Demand for Electrical Equipment

Name	Recent Price	Dividend	Current Yield
Cutler Hammer	$57	$1*	1.8
General Electric	39	1	2.5
Westinghouse Electric	126	4	3.2

* Plus extras.

Situated in a position somewhat similar to that of the chemicals are the electrical equipments. Although they do not devise new lines with quite the same amazing rapidity of the former, the electrical equipment industry is far from static. Installations of current-consuming household apparatus have made remarkable gains; indeed, new high records are being established. Moreover, an ever-mounting flood of new refrigerators, electric irons, washing machines, oil burners, fans, vacuum cleaners and the like has important secondary effects. Not only do the manufacturers of electrical equipment benefit from the manufacture of these things or parts thereof, but the increased use of current brings power companies into the market for equipment, materials and supplies.

So far, the gains made by the electrical equipments have been mostly in the light division, but now that power output has reached a new all-time high record the heavy division which has only just begun to pick up should really begin to hit its stride. This happy state of affairs would be reached the sooner, of course, if it were not for the political agitation to which the utilities are being subjected. No investor will put up money for a new power plant when he thinks that there is a possibility of the Government putting up a competing plant as soon as his is completed. The future political attitude towards the public utilities will make a great difference to the electrical equipments, but regardless of whether the present persecution is to continue or not, the trend of electric power output certainly foreshadows an improvement in central station business. This, coupled with continued prosperity in the light division, makes the electrical equipment outlook a bright one.

Likewise bright is the outlook for non-ferrous metals; considerable improvement has been registered already. Demand has improved in all divisions and, in those cases where inventories at one time were grossly excessive, stocks on hand have been brought to reasonable dimensions. Among the influences that have bettered the demand for copper is the great activity in the automobile industry, the upturn in building, the demand for electrical appliances, the increased use of copper alloys and, abroad, the speed with which rearmament has been pushed. Nickel is in the midst of a period of dynamic expansion and new uses for this metal are constantly being found; there seems to be no end to new nickel alloys, both ferrous and non-ferrous. Lead has been aided by the automobile, by the increased demand for printing metals and by the fact that the country is at last rectifying its long neglect of paint. Zinc has been a beneficiary of the farmers' more prosperous condition, for it has resulted in a greater demand for galvanized products of all kinds. In addition, zinc has been helped by the automobile, particularly by the fad for die-cast radiator grills, and by the improved demand for paint.

Opportunities Among the Metals

Name	Recent Price	Dividend	Current Yield
Am. Smelting & Refining	$80	$2	2.5
Anaconda	35	1	2.9
Cerro de Pasco	53	4	7.6
International Nickel	50	1.20	2.4
National Lead	27	0.50	1.8
New Jersey Zinc	77	2*	2.6

* Plus extras.

From a stock standpoint, there is plenty of variety to be had among the non-ferrous metals. Even among the handful listed, it might be noted that in Cerro de Pasco one receives a stake in copper, an important stake in silver, some gold and some lead and zinc; International Nickel provides nickel and a great deal of copper, while a number of precious metals are important to the company; National Lead touches everything of which lead is an important part; and New Jersey Zinc is to zinc what National Lead is to lead. The non-ferrous metals are certain to share in any further improvement in general business.

Railroad Equipments in Improved Position

Name	Recent Price	Dividend	Current Yield
Am. Brake Shoe & Foundry	$48	$1.60	3.3
General Railway Signal	34	1	3.0
Pullman, Inc.	46	1.50	3.1
Westinghouse Air Brake	40	1	2.5

As was brought out in THE MAGAZINE OF WALL STREET of June 20, the railroad equipment industry is at last experiencing substantially improved business as a result of the sustained upturn in carloadings and railroad earnings. Since that article was written nothing has developed to alter the conclusion that the future outlook was highly favorable.

Business Equipment Stocks for Income and Appreciation

Name	Recent Price	Dividend	Current Yield
Burroughs Adding Machine	$25	$0.60*	2.4
International Business Machines	171	6.00*	3.5
National Cash Register	22	0.50	2.3
Underwood-Elliott-Fisher	78	3.00	3.9

* Plus extras.

During the depression, plant and operating equipment were not the only things that were inadequately maintenanced; offices, too, were permitted to run down. Hence, there was gradually built up a huge potential demand for typewriters, adding machines, calculating machines, bookkeeping machines, cash registers and the like. As business improved and earnings gained, part of this potential demand has become an actual demand, and the makers of business equipment have benefited accordingly. Other causes, however, have greatly accelerated the gains in this field. A combination of depression and the New Deal has brought in its train all kinds of new taxes and laws requiring periodic reports. In other words, politics have vastly complicated accounting practice over the past few years and consequently have enhanced the demand for business equipment over and above what might have been considered normal in proportion to the recovery already registered. It seems

likely that the ordinary replacement demand for office equipment has been only scatched so far and as there is not the slightest indication that our various town, state and federal governments will require less information in the future, there is every probability that manufacturers in this field have yet to see peak business.

Nor has peak business been seen by residential construction and the companies identified with this type of activity. So far optimistic predictions have been substantiated in large measure; construction *has* picked up markedly and the stocks of building companies *have* appreciated sensationally. In recent weeks perhaps they have tended to lag, but this has been more because speculation has out-run temporarily actual gains than because there has been any change in the rosy outlook. There has been, of course, price cutting in certain lines of building materials but, the prospect being what it is, this would probably have had little effect

Building Stocks With Possibilities

Speculative Preferred Stocks

Name	Recent Price	Dividend	Current Yield
Celotex (5)	$71	..	...
Certain-Teed Products (7)	87	..	...
Fuller G. A. prior (6)	67	..	...

Speculative Common Stocks

Name	Recent Price	Dividend	Current Yield
Am. Radiator & Std. San	20	..	...
Crane Co	30	..	...
Holland Furnace	37	..	...
National Gypsum	50	..	...

Common Stocks for Income and Price Appreciation

Name	Recent Price	Dividend	Current Yield
Pittsburgh Plate Glass	120	2.00*	1.7
Ruberoid	78	1.00*	1.3
Sherwin-Williams	134	4.00	3.0
Yale & Towne	39	.60	1.5

*Plus extras.

had the building stocks been at a level that discounted the future less optimistically.

Nevertheless, despite a present tendency to lag and despite the possibility of keen competition between one company and another and one material and another, it does not seem likely that the building stocks will be able to resist for any considerable time the upward pressure of mounting volume. It is not to be forgotten that the peak of the last residential building boom took place ten years ago and that depreciation, obsolescence and fire have been taking their toll ever since, to say nothing of the new housing required to take care of the increased population. Normally, the over-built condition that resulted from the last boom would have been worked off half a dozen years ago. Unfortunately, it was then that the depression was becoming deeper and deeper. Unemployment and reduced wages drove people to double-up with their relatives and friends; distress houses became a glut on the market. The Government through the Home Owners' Loan Corp. and other agencies, however, largely underwrote the real estate market and now that there has been a measure of recovery, the construction pendulum has begun to swing the other way. That it will be a big swing, probably resulting finally in a boom, seems certain because of the length of time it has lain suppressed.

Although automobile production and sales continue to hold up unexpectedly well, the industry is turning its thoughts more and more to the new models. Because the end of the present styles is definitely in sight and because it is as yet too early to know a great deal about the new

Motors With Good Prospects

Speculative Common Stocks

Name	Recent Price	Dividend	Current Yield
Hudson Motor	$16	..	...
Studebaker	11	..	...
White Motor	22	..	...

Common Stocks for Income and Price Appreciation

Name	Recent Price	Dividend	Current Yield
Chrysler Corp	115	$6	5.2
General Motors	70	2*	2.9

Automobile Accessories

Common Stocks for Income and Price Appreciation

Name	Recent Price	Dividend	Current Yield
Borg-Warner	75	3	4.0
Briggs Manufacturing	55	2*	3.7
Motor Products	38	2	5.2
Young Spring & Wire	44	3	7.0

* Plus extras.

ones, it is not easy to appraise the prospects of the different automobile and automobile accessory companies. We do know that the industry as a whole should have another good year in 1937 and that, unless there should be a reversal of present tendencies, the medium priced cars will continue to give an exceptionally good account of themselves. This represents a distinct contrast to the state of affairs existing a year or two ago when Ford, Chevrolet and Plymouth were taking an ever-growing proportion of the total market.

Among the automobile companies proper, General Motors and Chrysler will continue to be the choice of the more conservative, but with Hudson and Studebaker both through the pay-point it may well be that the latter offer greater speculative opportunity. Also, while not listed in the table above, Nash and Packard are not without their speculative attractions. The better automobile accessory companies can, of course, be expected to continue receiving their fair share of the available business and, in addition, most of them can offer the investor the advantage of diversification through a number of different lines.

Larger Profits for Tool Builders

Name	Recent Price	Dividend	Current Yield
Bliss, E. W.	$19	..	...
Chicago Pneumatic Tool	16	..	...
Fairbanks Morse	49	..	...
Foster Wheeler	27	..	...
National Acme	14	..	...

Common Stocks for Income and Price Appreciation

Name	Recent Price	Dividend	Current Yield
Allis-Chalmers	44	$1	2.3
Caterpillar Tractor	72	2	2.8
Food Machinery	33	1	3.0
Ingersoll-Rand	129	2*	1.6
Mesta Machine	48	3	6.2
Starrett L. S.	26	1.40	5.4

* Plus extras.

The generally favorable outlook for manufacturers of machinery and tools is based on the widespread under-maintenance of the depression years. During this period depreciation and obsolescence proceeded as usual but, because of declining business and lack of funds, companies were loath to spend money for new tools and machinery or even

(Please turn to page 442)

Significant Foreign Events

By George Berkalew

Foreign Representative of The Magazine of Wall Street

The Way of the Economic World

The idea of collective security has been tried and found wanting, but the disheartening failure of the League as a clearing house for controversies in no way diminishes its value as an active organization for the accumulation of collective statistics. The report of Harold Butler at the twentieth International Labor Conference in Geneva is an example of this relatively inconspicuous but nevertheless important function.

Nesmith Photo

Geneva—Seat of League which may become nothing more than a clearing house for economic information

In context, the report may be construed as a balance sheet of world economy. On the asset side is noted an improvement in the index of industrial production in Chile, Denmark, Finland, Greece, Hungary, Japan, Norway, Rumania, the United Kingdom, Sweden and the U. S. S. R. These indices either equal or exceed the 1929 level, while German output is only slightly below the volume of that year. Marked progress is also reported in Belgium, Czecho-Slovakia, Italy, Canada and the United States. Statistics for France and the other "gold bloc" countries show practically no change, although there is universal tendency towards the absorption of higher raw material prices without entailing a corresponding increase in the price of finished goods. Another account on the asset side of the international balance sheet is a gradual but perceptible decline in unemployment throughout the world, approximating 15 per cent for the last twelve months period, 32 per cent since 1932.

On the opposite side of this year's statement are posted two major liabilities: first, the contingent liability of "gold bloc" currency revaluation; second, losses accruing from slack commercial exchange. Although according to League statistics the volume of world trade shows a moderate rise from 71.1 to 79.4 between the first quarters of 1935 and 1936, restrictions in force, such as quotas, upward tariff revisions, and clearing arrangements, have impeded the normal revival of international business. Even this moderate improvement may be attributed in a large part to extraordinary circumstances, notably the manufacturing and distribution of war material. In other words, the recovery has been more evident within the adjusted economies of individual countries than in the international field as a whole.

☆ ☆ ☆

Great Britain Skims the Cream from Insular Profits

Indices of business conditions in Great Britain suggest that a satisfactory level of activity has been maintained. The trend of production which reached its low of 93 in September of 1932 (1924 = 100) followed an upward secular trend to 118 in April, 1935, and dipped sharply during the course of June, then regained the record peak at the end of the month.

Forces working for recovery have been stimulated by forward rearmament orders, and the tail of the building boom, apparently still wagging vigorously, contracts awarded last month exceeding those approved a year ago. Iron and steel and machinery industries, which have already forged ahead of other branches in the industrial field, show signs of diminished expansion. Still, the erection of factories and workshops to accommodate armament requirements, together with the increased purchases of automobiles by dealers, indicate that certain key industries have not yet reached their peak of activity. In contrast with their former high level of production, the majority of capital equipment industries, a representative number of consumer goods concerns, as well as the coal and textile enterprises, are still operating well below capacity due to the prolonged stagnation of export demand.

England is finding it not only increasingly difficult to effect a migration of labor from distressed areas to more specialized and more prosperous industrial centers, but she is also encountering an ever-increasing sales resistance in former colonial markets. India has already repudiated her adhesion to Empire trade restrictions imposed by the Ottawa Conference. Economic development in Canada, South Africa and Australia has grown beyond the infant industry stage, and the colonies may be expected to pull a stronger oar in the competitive race for outlets, formerly considered tightly sewed up by British commercialism.

A shrewd policy of foreign lending coupled with time-honored methods of exerting pressure in the form of political blackmail abroad, may retain Great Britain's position of

number one overseas trader for a limited future period. At present England is occupied almost exclusively with skimming the cream from insular industrial products, smugly refuses to see the writing on the wall, prophesying in bold letters the end of Empire building—the beginning of Empire disintegration.

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Germany—Financing Nationalism

Germany emerges a flagrant case in point of intensive nationalism in its latter stages; illustrates with vivid reality the successive steps toward complete usurpation of economic power by dictatorship leading by irrepressible evolution to state bankruptcy.

Dr. Schacht launched the new 4½ per cent State Loan of 700 million marks with a patriotic declaration—that it is the duty of every citizen to subscribe in return for the benefits he has received from the new labor and economic legislation instituted by the National Socialist Party. How far every German citizen can be persuaded that it is his duty to contribute further to the consolidation of the state debt remains to be seen. This conjecture is in reality immaterial, since free subscription is generally taken care of by industrial employers or State organizations independently from the desire of the citizens concerned. The accumulated value of consolidated issues amounted, by the end of March, 1936, to: 500 million 4½ per cent Treasury Bonds of May, 1935; 830 million 4½ per cent loan 1935 first issue, and 585 million in a second issue; a 250 to 300 million loan taken over by insurance companies in 1936, making a total outstanding of 3.3 to 3.4 billion marks. It is expected that the money thus put into circulation for the development of public works should logically and properly return to the vaults of the State Treasury since Germans, as good citizens and nationalists, could not conceivably have a better method of employing their individual capital and savings. The prospectus of the new loan states euphemistically that credit conditions are so favorable that it was decided to offer this issue to the public now, instead of in the autumn, "in order to drain the market of free money in circulation."

The question is—what does the middle class banker, merchant or manufacturer think of lending his money under conditions of patriotic duress? The opinion of this class is confused, torn between loyality toward the Fuehrer, and resentment against the deprivation of personal liberty. All seem to agree at present that the National Socialist regime suits the country; a regime dedicated to the task of warding off the Communist danger and a general disintegration of modern European civilization. All trust in the entire honesty and sincerity of Hitler; all admit a general reconstruction and progress. The work of propaganda has succeeded. Only a few see in this economic progress the beginnings of a great boom or flourishing epoch; others shake their heads in wonder, fail to see any material basis for the much vaunted reconstruction. Ironically, no one is able to formulate a definite conception of the mechanism of the financial system, the coverage of notes in circulation, or the seemingly endless rotation of Treasury bills. These Treasury notes are vaguely described as state obligations, guaranteed by "the general wealth of the totality of the population." Unless the total capital assets of the state are operated on a profit paying basis, the real wealth of the population is practically nil, the value of the Treasury Promissory Notes intangible. Hence the Nazi party is faced with the necessity of finding additional assets of more tangible earning power either in the form of new continental markets or colonial sources of raw material supplies—more preferably both.

The latter of these two issues is expected to come up almost immediately for discussion in the Parliament now in session with a claim for the return of all former German colonies—unconditionally. For Hitler the colonial problem is not as simple as that. It is not a question of ask and they shall be given unto you, but rather seek and ye shall find.

☆ ☆ ☆

The Congo—A New Source of Cotton, Copper and Tin

Colonial possessions have a way, more often than not, of proving a liability rather than an asset for the mother country. While most imperial powers are checking the deficits, both financial and commercial, of colonial exploitation, the Belgian Congo is paying dividends. But profitable colonial development engenders potential competition in other producing centers. For example, if the output of certain Kantanga non-ferrous metals was not subject to cartel control, the production of American copper and Malayan tin might be seriously deranged. For the present, no restrictions have been necessary for Congo cotton, yet the crop is improving in quality and quantity, fast enough to justify the extension of existing railways, and the intensification of river services to the Uele Province. In copper and cotton, the Congo promises to become a runner-up in the international competitive field.

Belgian cotton, like Brazilian cotton at one time, remained a myth for decades. In 1930, however, 30,000 metric tons of cotton seed and 10,000 metric tons of cotton fibre were shipped out of the colony. During 1935, exports increased roughly by 150 per cent. Cotton seed amounting to 77 thousand tons were thrown on the world markets last year—bulked large enough to make an impression. Twenty-six thousand tons of cotton bales were shipped not only to Belgium, but also to other American markets—notably Holland, Switzerland and Germany. Belgium still takes about 32½ per cent of her raw cotton requirements from the United States, a similar amount from British India, yet already the Congo occupies third place supplying 20 per cent of total Belgian imports.

Nesmith Photo

Clearing ground in the Belgian Congo—Cotton grown here is becoming increasingly important

Congo copper has entered directly into American competition with Germany. According to the German devisen

(*Please turn to page* 442)

Re-Appraising the Oils

What Should the Investor's Position Be Now and What are the Trader's Prospects?

By Barnabas Bryan, Jr.

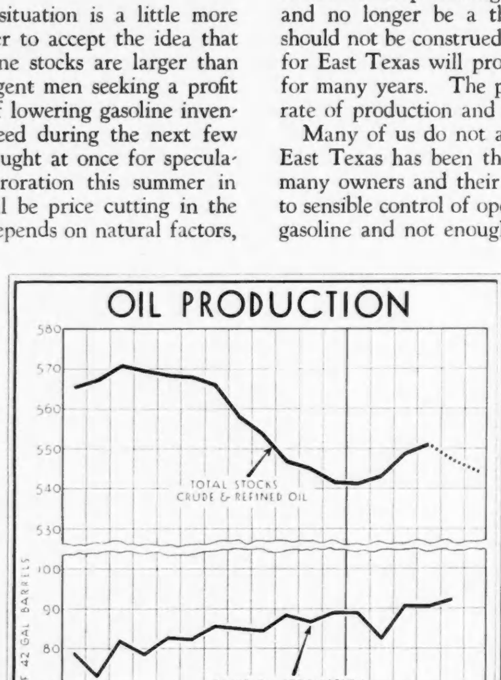
THE investor should hold such oil securities as he now owns and should buy more on market weakness. Despite the alarms to the contrary, the improvement in the fundamentals of the industry which became evident in 1934 continues as rapidly as expected and gives evidence of going much further. Oil company earnings are now better than in 1935.

To the speculator the present situation is a little more complex. He must decide whether to accept the idea that prices must decline because gasoline stocks are larger than last year, or to believe that intelligent men seeking a profit can act together for the purpose of lowering gasoline inventories. If co-operation is to succeed during the next few months, then the oils should be bought at once for speculation; if oil men fail to follow proration this summer in production and refining, there will be price cutting in the fall. Thus the investment trend depends on natural factors, while the speculative outlook is related to the human factor.

Recent investment news of crude oil is encouraging. The Rodessa field, about which there has been so much talk, is showing water in many wells. This indicates that the field may have been over-rated. There will be many more wells drilled and the production of the field will have to be held down by proration for many months. Present indications are that in the future, wells will show water more quickly than in the past, and that producers will become more amenable to the restraint of proration, due to the fact that the wells will produce so much more oil if it is taken slowly. Thus, in spite of the number of wells and the ultimate oil production, the rate of production will soon have to be held down in order to prevent churning the water up into the oil.

East Texas is in a more advanced stage of pressure decline. In the month from May 12 to June 12, the pressure fell 7.5 pounds. The only way to halt the pressure decline is to lower the production per well. The field now has over 20,000 wells and the production per well is nearly down to twenty barrels per day. The time is not far distant when drilling more wells will not increase the effective production of the field if the pressure is to be conserved in a rational manner. Two-thirds of the wells are now being pumped and as the remainder stop flowing the field will settle down to sanity and no longer be a threat to oil prices. These remarks should not be construed to mean that the field is played out, for East Texas will produce an immense amount of oil and for many years. The point, however, to the investor is the rate of production and its effect on prices.

Many of us do not appreciate the several ways in which East Texas has been the cause of depression in oil. It has many owners and their number has been a stumbling block to sensible control of operations. The oil produces too much gasoline and not enough fuel oil for the American market. This acts to stimulate the refining of oil to get fuel and furnace oil and results in the over-production of gasoline. The tariff on heavy crude and fuel oil from Venezuela, imposed at the behest of the independent refiner, has distorted supplies for existing markets and increased gasoline inventories. This potential situation will continue so long as the East Texas type of oil is produced in excess and the price of fuel oil stays so low in relation to the price of coal.



As East Texas decreases in importance, more will happen than just the loss of so much production. If that production is replaced barrel for barrel by oil like that from Rodessa or West Texas, the situation will still be vastly improved. This would put the production control on the major product, gasoline, where it belongs. It would stimulate cracking, by which means we get the anti-knock fuel which is necessary to the modern car. It would work for conservation by putting a premium on effective refining and would eliminate skimming crude

oil just to get the fuel oil. It would tone up the entire business, even down to the retail station, by bringing the industry back to economic reality where operations are controlled by the demand for gasoline, the product which justifies its existence today and brings in the cash.

The oil industry itself could work out of the present position very quickly by introducing the idea of seasonal variation into the operation of proration. The demand for gasoline is greatest in the summer and smallest in the winter; the demand for fuel oil is just the opposite. What could be more sensible than to decrease the quotas for the high gasoline fields in the winter and increase the quotas for the low grade oils at the same time. As summer came on the relative size of the quotas could be reversed and on the annual basis each field would get about the same production that it does under present methods. But the inventory position would then remain more normal throughout the year and the oil companies would make more money. Is the industry capable of that much co-operation?

These basic considerations of production, quality of oil and policy of proration should be the main points of study by the investor. So long as demand continues its astounding advance, the presence of a few millions of barrels of gasoline more than we had last year is of small moment. Were stocks as low as a year ago, with demand running three or four per cent ahead of expectations, the industry would be in a fever of excitement. We would again be hearing of the fact that no new important fields have been opened this year, we would talk about the water at Rodessa and the Oklahoma City extension, the small effective shutin production in California and the loss of pressure at East Texas.

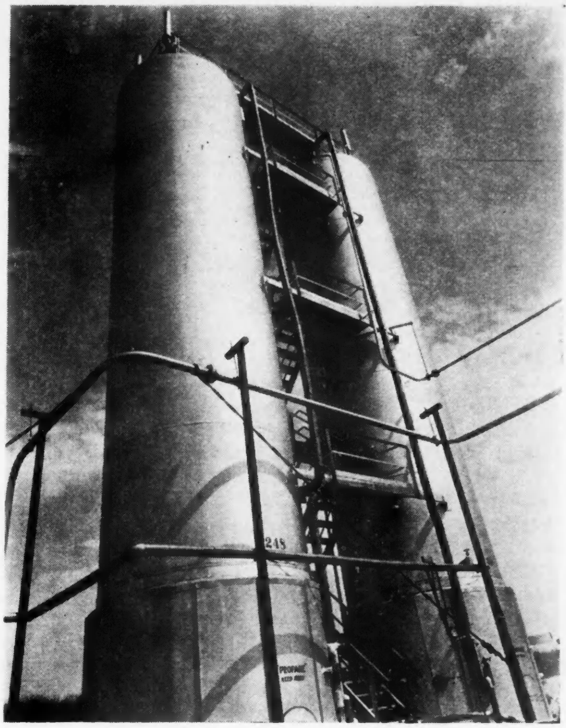
The Speculator

Under proration, the speculator takes his chance on the major trend of the whole market and the effectiveness of oil control. Ever since 1928, the industry has been capable of producing more oil than was needed. It has faced ruin except for control and will continue to do so for a year or two at least. It will be a calamity when that is not true, because it will herald the exhaustion of our cheap oil and a general advance in the cost of gasoline to the consumer. With our universal dependence on liquid fuel, it is insanity not to see our supply of oil far enough ahead to create the need of control in its production. So we must continually make more effective our methods of proration. The ups and downs of progress in proration are the realm of the speculator, and the trend, that of the investor.

The weakness in the oil securities this spring is a result of a lowering in the effectiveness of proration for a few months. We produced a little too much crude oil because the state of Louisiana wanted the taxes from Rodessa production and would not cut back the quota of the field to market demand. On the side, we refused to put up the price of fuel oil and ran the refineries a little too much in order to keep down the price to the consumer. This is a beautiful example of how competition works in favor of the consumer.

As we now enter the season of maximum gasoline consumption we have inventories which are larger than we like, but we also have gasoline demand running ten per cent ahead of last year. If we find the day's supply of gasoline as of April 30 of this year and last, we discover that last year we had 56 days' supply at the April rate of demand and that this year we have all of 57 days' supply. Of course inventories do not need to go up in proportion to demand, but the demand does decrease the pressure of stocks of gasoline and in this case will probably result in supporting the present price structure throughout this season.

Crude oil stocks are actually lower than a year ago, but



Propane towers at Socony's plant at Paulsboro, N. J.

have increased somewhat since February. At present the rise has been halted and they have again started to decline slightly. If the renewed zeal for proration works through the summer, crude oil stocks will possibly decline considerably, since the cause of the spring rise at Rodessa and Oklahoma City is waning because of the appearance of water. Granting that the demand for oil products will continue at the indicated high rate, there should be no addition to storage of crude oil before the late fall, and not then unless the discovery of new fields or extension of old ones changes the present outlook.

The Big Question

Just as some investors have taken fright at gasoline stocks this spring, so have some of the oil people themselves. This provides the cure which corrects the trouble. The states of the Interstate Compact, which includes most of the oil-producing states except California and Louisiana, have taken it upon themselves to cut quotas for July below those given by the Bureau of Mines. Likewise the proration authorities of the states of Texas and Louisiana are to meet this month to work out a proper basis of proration of the Rodessa field since it extends into both states. These things are done to reduce gasoline stocks and will accomplish that result provided that the refiners follow suit. Granted that the industry follows this plan, inventories will reduce themselves under the summer demand and the fall months will find stocks below normal for gasoline, firm prices for oil products and an extra low inventory of fuel oil. The real speculative question is whether the oil men will keep cool and make money this year or will get excited over the big demand for gasoline.

The human factor is usually excluded from the calm consideration of economics. This may be the difficulty with new deals and managed currencies. It leaves one in some

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For Profit and Income

Leverage in the Utilities

With output of electric power establishing new high records and at a time of year when the days are long and the consumption of electric current for lighting presumably less, investors and speculators apparently are losing their fear of political agitation, government competition, higher costs, higher taxes, etc. The appreciation in the preferred stocks of some holding companies—stocks with a large factor of leverage — has been nothing short of sensational. ***American Power & Light*** $5 preferred is selling around $69 a share currently, compared with the year's low of $36; ***Electric Power & Light*** $6 preferred at $77, against a low of $29; ***Standard Gas & Electric*** $4 preferred at $19, compared with a low of $9. And then on the New York Curb Exchange, ***Cities Service Power & Light*** preferred, ***Illinois Power & Light*** preferred, ***North American Light & Power*** preferred are among those that have made a similar showing. Three or four years ago, most of these stocks could have been bought for a dollar or two a share. This is an enormous rise, but despite it, if the present trend of electric power output continues, and there is no reason to expect that it will be reversed, they are likely to move still higher. Moreover, the repudiation of the "New Deal" next November is by no means an impossibility and, if it were, the stocks of these holding companies should reflect it in no uncertain terms.

* * *

Sidelights on the Drought

Advocates of the theory of "prosperity by destruction" undoubtedly read the drought news with beaming faces; grains have been soaring the price limit, therefore all is well. These same people like to read of Brazil dumping in the sea 36,588,000 bags of coffee (the actual amount eliminated in five years of destruction). They rejoice when every third row of cotton is ploughed up and clap their hands at the slaughter of 5,000,000 little porkers. They think that a flood in Pittsburgh is a fine thing because of "all the labor and materials that will be needed to rebuild the city" and when New York is buried under two feet of snow they never fail to remark on "the jobs it gives poor devils digging the place out."

However, there is another side to the picture. ***Great Northern*** dropped $10 a share on the drought news, ***Northern Pacific*** even more. These roads will have less freight to carry. ***Corn Products,*** which was doing nicely, declined from $82 a share to $72. Faced with the higher cost of raw material, the company has raised prices and is likely to operate under a narrower profit margin with a smaller volume of business. Farm equipments, whose outlook not long ago was the best in years, have been sold on a prospective loss of farmer purchasing power.

No, let us keep one thing straight in this world of topsy-turvy economics: a drought's a drought and a disaster, in exactly the same way that earthquakes, fires and wars are disasters.

* * *

Taxes Cause Trouble Again

Passed by the legislature and signed by the governor, the tax on the extraction of sulphur in Louisiana is now $2 a ton instead of 60 cents as formerly. ***Freeport Texas*** was notably weak on the news. Just beginning to overcome operating difficulties imposed by nature at its new deposit at Grande Ecaille, man has to step in and mar a generally favorable outlook! Possibly, however, it may mean that Freeport will taper off Louisiana output and concentrate more upon Hoskins Mound in Texas. ***Texas Gulf Sulphur*** was hardly affected by the Louisiana tax news, for by far the greater part of its operations are not part of its operations are Texas.

* * *

Foreign Holders of American Securities and the New Tax Law

At one time when the new tax bill was in the formative stage it was proposed that the foreign holder of American securities be taxed some 25 per cent of any income he might derive from them—a suggestion which caused widespread consternation in London, Amsterdam and elsewhere. In view of this, foreign holders of American securities undoubtedly will be interested to know that the tax bill as actually passed imposes a levy of only 10 per cent on their income and that any capital gains are wholly tax-exempt. This, of course, applies to non-resident alien individuals and corporations not doing business in this country; mere buying and selling securities through a broker here is not "business." If they carry on a business, they pay full normal tax and surtaxes.

Coming Dividend Meetings

Company	Approx. Date	Probable Action (On the common)
Allegheny Steel	July 20	Regular 25 cents.
American Tobacco	July 29	Regular $1.25.
Armstrong Cork	July 22	More than regular 37½ cents.
Borden Co	July 23	Regular 40 cents.
Burroughs Adding Machine	July 28	More than regular 15 cents.
Caterpillar Tractor	July 21	Regular 50 cents.
Coca-Cola	July 27	More than regular 50 cents.
Colgate-Palmolive-Peet	July 22	Regular 12½ cents.
Consolidated Edison N. Y.	July 27	More than regular 25 cents.
Inland Steel	July 28	More than regular 75 cents.
Liggett & Myers	July 22	Regular $1.
Monsanto Chemical	July 28	Another extra.
National Lead	July 28	More than regular 12½ cents.
Penick & Ford	July 28	Regular 75 cents.
Westinghouse Electric	July 29	Regular $1.

Although in many respects it is only just that foreigners should pay some tax from incomes derived from this country, the course we have just taken is hazardous and establishes a precedent that may well be a boomerang. In the first place, it is to be remembered that foreigners rely on the income from their American securities for dollars with which to pay for American cotton and other exports; in the second place, the United States being a creditor nation stands to lose much more should foreign nations decide to tax those that hold *their* securities than she could ever gain through the taxation of foreigners holding *her* securities.

* * *

Dow Chemical

Reporting for the fiscal year to May 31, 1936, the ***Dow Chemical Co.*** showed earnings of $4,384,510, after depreciation, taxes and other charges. This was equivalent to $4.42 a share on each of the 945,000 shares of no-par common stock outstanding. For the previous year $3.32 a share was reported. Dow is an extremely progressive chemical organization. The business, founded on brine wells, has been expanded and it now includes a wide line of synthetic organic chemicals. One of the company's most interesting products is Dowmetal, a magnesium alloy even lighter than aluminum. The stock of Dow Chemical is actively traded on the New York Curb Exchange. Current price is around $113 a share and, while this is more than twenty-five times the year's earnings that have just been reported, the company is one with dynamic possibilities, something for which today's investor seems always ready to pay heavily.

* * *

Factors to Watch in Retail Trade

Retail trade has held up exceptionally well so far this summer. June was one of the best months in years: department store, mail order and chain merchandisers enjoyed sales on the average well over 15 per cent better than in June a year ago. With the automobile industry, steel and business generally holding up better than had been expected for the season, coupled with the distribution of the soldiers' bonus, it was a reasonable hope that July and August would make a good showing. Two clouds, however, have now appeared and must be watched. The first, the drought, is expected to affect retail trade adversely throughout the distress area, despite the payment of doles on the part of the Federal Government. The second is the possibility of a steel strike. Should such a development actually occur, retail trade in the steel towns undoubtedly would suffer. Holders of such stocks as Kaufmann Department Stores, Pittsburgh retailer, and Marshall Field of Chicago will be particularly interested in the outcome.

* * *

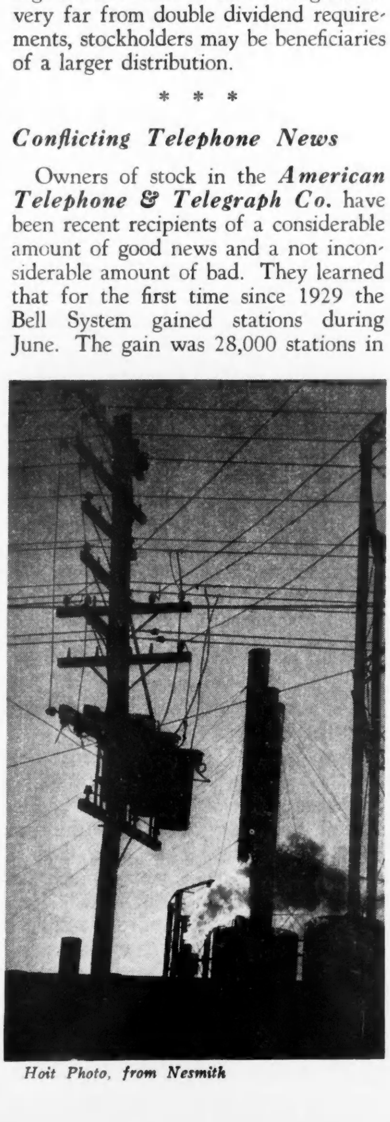
National Dairy

In recent weeks the stock of ***National Dairy Products*** has crept slowly and unspectacularly forward to a succession of new highs. It is believed that the company is doing particularly well with its ice cream this year and that the rise in commodities as a result of the drought will relieve it of inventory problems. At today's price of $28 a share, the stock of National Dairy affords a yield of about 4½ per cent on the basis of the regular $1.20 dividend. However, as this year's earnings are estimated to be running not so very far from double dividend requirements, stockholders may be beneficiaries of a larger distribution.

* * *

Conflicting Telephone News

Owners of stock in the ***American Telephone & Telegraph Co.*** have been recent recipients of a considerable amount of good news and a not inconsiderable amount of bad. They learned that for the first time since 1929 the Bell System gained stations during June. The gain was 28,000 stations in June, this year, compared with a loss of 8,300 in June, 1935, and a gain of 78,200 in May, 1936. Also on the constructive side was the report of ATT to the Federal Communications Commission showing for the first five months of this year gross income of $43,897,971, against gross of $38,573,068 in the corresponding period of 1935. Net operating income for the first five months of 1936 was $9,311,219, compared with $6,325,449 in the corresponding previous period. These figures do not include non-operating income and charges, such as dividends and interest received and rentals paid. Tending to offset these favorable developments was the report that the New York Telephone Co., ATT's largest subsidiary, had accepted the order of the Public Service Commission to reduce charges, estimated at $4,200,000 annually. Likewise, the Michigan Bell Telephone Co. has agreed to a reduction in charges, estimated to save subscribers $1,500,000 annually. Also, this subsidiary was ordered to pay ATT $200,000 instead of $439,000 under a license contract for certain long distance equipment.



Hoit Photo, from Nesmith

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Machine Tools

Soaring to 128.8, the June index of the Machine Tool Manufacturers Association served to call attention anew to the favorable prospect enjoyed by companies in this field. The mark of 128.8 was 8.3% over the preceding month and 41.3% above the figure of a year ago. With the automobile industry facing an active future as soon as the change-over to the new models is made and with industry generally embarked upon widespread plans of modernization and renovation, manufacturers of machine tools have no quarrel with the outlook. Possibly the thing that is most troubling them is the acute shortage of skilled labor. This has tended to raise labor costs and make smooth-running capacity production hard to attain. ***Mesta Machine, National Acme*** and ***Bullard***, all companies whose stocks are quoted on the New York Stock Exchange, are representative of the field.

* * *

Savings at New High Record

After all the talk of inflation among professional economists, the constant increase in the deposits of savings banks shows that such fears are anything but general. In New York State, deposits in mutual savings banks rose more than $23,000,000 during the first half of

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Speculations in Bonds

Selected Second Grade Issues Have Possibilities for Price Appreciation

By J. S. Williams

In The Magazine of Wall Street dated July 4, the pros and cons of a possible bear market in gilt-edge bonds were discussed in detail and the opinion was submitted that any impending decline would be more likely to be gradual rather than precipitate. However one may feel about the outlook for high grade bonds, there can be little doubt that present circumstances strongly favor the further recovery of second grade and speculative bonds. This class of bond is likely to be affected but slightly, if at all, by those factors governing the market movements of high grade investment issues. Second grade bonds are responsive, at least up to the point where they are clearly entitled to a higher rating, to the same factors which determine common stock values, viz., the industrial prospects and trend of earnings of the issuing company.

Despite the advances in many such issues over the past two years, the bond buyer is still left with a wide choice of second grade and speculative bonds, among which are some which will undoubtedly enjoy substantial enhancement in value, in the months ahead, while others invite investment consideration for the generous yield obtainable. It should be clearly understood, however, that the purchase of such bonds is largely in the nature of a speculative undertaking, making it necessary to employ the same precaution and discrimination as in the case of commitments in any financial venture involving something more than a normal risk.

A diversity of choice is presented in the appended list, but all of the represented issues appear to have rather well defined possibilities for price appreciation and most of them offer the added inducement of a liberal yield. Several of these issues have been selected arbitrarily, and without prejudice to the others, for special analysis.

Central States Electric Corp.

Deb. 5½'s 1954. Recent Price 73, Current Yield 7.5%.

The Central States Electric Corp. is in the nature of a hybrid, partaking of the characteristics of both a holding company and an investment trust. As of May 15, last, the company in a report to the S E C disclosed its various holdings, among which were 580,489 shares of North American Co. common stock, and 1,989,755 shares of class B and 2,100 shares of class A stock of the American Cities Power & Light Corp. In addition, the company held 771,989 shares of common and 1,175 shares of preferred stock of the Electric Shareholdings Corp.; 3,900 shares of Detroit Edison; and 30,000 warrants of Atlas Corp. While the company held a number of other investments in its portfolio, these were the principal and most valuable ones.

It is at once apparent that the company is heavily dependent upon its investment in North American Co. shares, which currently has a market value of some $18,000,000. Moreover, Electric Shareholdings, which Central States controls jointly, holds 381,737 shares of North American common. North American is one of the more conservative of the public utility holding companies and it is believed that, even in the event that the Public Utility Act of 1935 is upheld, of which there is well founded doubt, the company could comply with its provisions without undue hardship. Meanwhile the earnings of North American have shown encouraging gains. Net last year was up 24 per cent and for the twelve months to March 31 last the common stock earned the equivalent of $1.45 a share as compared with $1.07 in the same period of 1935.

Central States Electric Corp. has two issues of debentures outstanding: $14,094,000 5's due 1948 and $23,099,000 5½'s due 1954. The asset value of the company's principal holdings at the present time is equivalent to somewhat better than $1,000 for each of the two issues of debentures outstanding. Income received from interest and dividends is not sufficient to fully cover interest on the debentures and expenses, and the deficit is made up by the sale of securities from the portfolio. At the end of last year, the company had cash of $2,065,212. A further rise in the value of North American shares is certain to be reflected in the value of the debentures. The 5½ per cent issue, currently selling at 73, gives a current yield of 7½ per cent, with which is combined interesting possibilities for speculative appreciation.

General Steel Castings Corp.

1st Mtge. 5½'s 1949. Recent Price 85, Current Yield 6.5%.

A spread of nearly twenty points in the current price range of the General Steel Castings 5½'s 1949 is a reflection of the semi-speculative position held by the bonds. Actually, however, the bonds are more secure than many issues which have displayed a greater degree of market stability. The company manufactures steel castings for railroad rolling stock, chiefly the steel underframes used in the construction of locomotives, freight and passenger cars. Control of the company is shared by four leading manufacturers of railway equipment: American Locomotive, American Steel Foundries, Baldwin and Pullman. The extended period of restricted business experienced by the railroad equipment industry is an old story, and General Steel

Castings has not shown a profit since 1930. Recently, however, the industry has shown more encouraging signs of sustained revival and orders booked by the leading manufacturers this year have been substantially larger than for some time. With the benefit of further recovery in railroad traffic and revenues, there is sound basis for anticipating further recovery in the industry, for the great need for new railway equipment cannot be questioned.

Fortunately, General Steel Castings was well equipped financially to weather a prolonged lean period, and still is in a position to withstand a further period of sub-normal orders. Current assets, including cash of more than $4,000,000, amounted to nearly $6,000,000 at the end of last year, while current liabilities were only $752,400. The first mortgage bonds are outstanding in the amount of $17,000,000 and secured by a first mortgage on two of the company's important plants. Last year, the company showed a deficit of $2,510,194 as compared with a deficit of $1,709,116 in 1934. In both years, however, about $1,165,000 of the deficit was accounted for by depreciation write-offs, so that actually the company was not out of pocket the full amount of the deficits. A deficit in the first quarter this year was moderately larger than a year ago, but results in the second quarter promise to reverse this trend.

The bonds have recovered nearly ten points from their low this year. At recent levels around 85, however, they combine an attractive yield and profit possibilities.

International Paper Co.

Ref. S.F. 6's 1955. Recent Price 85, Current Yield 7.0%.

Several years ago the International Paper Co., completed the segregation of its extensive public utility and water power properties from its paper-making activities. Control of all utility properties is now vested with the International Hydro Electric System, while the paper, pulp and other industrial properties are held by the International Paper Co., in the capacity of both a holding and operating company. Both companies are in turn controlled by the International Paper & Power Co.

Formerly engaged almost exclusively in the production of newsprint, International Paper, in recent years, has diversified its output to include other types of paper. An extensive readjustment of manufacturing facilities has resulted in the concentration of newsprint production in Canada and Newfoundland at plants which are rated as among the lowest cost producers in the world. Less efficient units have either been sold or abandoned and plants in the United States are principally engaged in the manufacture of such products as kraft paper, book and bond papers, wrapping paper, paper bags, tissue and towel papers and envelopes.

At the end of 1935, total funded debt of International Paper amounted to $67,536,646, a decline for the year of $1,927,047. The refunding 6's 1955 are outstanding at somewhat less than $20,000,000. The bonds, subject only to $15,000,000 1st and refunding 5's 1947, are secured by a mortgage on substantially all of the real estate, paper mills and other fixed properties now owned by International Paper. The bonds are additionally secured by the pledge of the entire capital stock and about $15,000,000 7 per cent gold notes of Canadian International Paper, Ltd., which controls one of the largest tracts of pulpwood timber and some of the most important newsprint and sulphite mills in Canada.

Overproduction in the newsprint industry, forcing prices to unprofitable levels, coupled with generally depressed business has prevented International paper from fully covering fixed charges since 1930. Since 1932, however, there has been moderate but gradual improvement and last year fixed charges were 63 per cent covered, *after* depreciation and depletion, as compared with a coverage of 57 per cent in 1934. Despite the series of unprofitable years, the company's finances have been maintained in a fairly comfortable position. After a reserve of $2,102,128 for doubtful accounts last year, current assets amounted to $44,161,665 as compared with current liabilities of $26,657,783. Working capital should be further strengthened by the proposed sale of $14,500,000 of bonds by the Southern Kraft Corp.

In the first quarter of this year, the deficit of $402,674 compared with the deficit of $1,068,996 in the same months last year. It is expected that the showing in the second quarter will be substantially better. Newsprint production has risen steadily, and particularly, the company is currently benefiting from the increased sales and higher prices for kraft products. Moreover, second quarter earnings will be relieved of the expenses incurred by the company as a result of floods.

Concrete evidence of the indicated improvement in the company's affairs should find reflection in higher prices for the bonds in question, and as a straight income-producing medium they yield about 7 per cent, on the basis of recent quotations around 85.

Second Grade Bonds For Profit and Income

Bond	Recent Price	Current Yield
Peoria & Eastern 1st 4s, 1940	86½	4.9
Central States Electric Deb. 5½s, 1954	73	7.5
Chicago, Indianapolis & Louisville 1st & Gen. 5s, 1966	21½	...
Southern Railway Deb. & Gen. 6½s, 1956	92	7.3
General Steel Castings 1st 5½s, 1949	85	6.5
International Paper Ref. 6s, 1955	85	7.0
Walworth Co. 1st 4s, 1955	73½	5.4
Twin City Rapid Trans. 1st & Ref. 5½s, 1952	83	6.6

Southern Railway

Dev. & Gen. 6½'s 1956.
Recent Price 92
Current Yield 7.3%

It has been officially estimated by officials of Southern Railway that earnings of the road this year will be sufficient to cover fixed charges and dividends on the 5 per cent preferred stock. This will be the first time since 1930 that Southern has fully covered fixed charges and if present indications prove to be a reliable criterion, the predictions of the management stand an excellent chance of being fulfilled.

In the first five months of this year monthly gross revenues of the road have been gaining on the average of 15 per cent. Gross for May totaled $7,464,175 as compared with gross of $6,420,385 for May 1935, and for the first five months, gross of $37,564,784 was more than $4,500,000 ahead of the same period a year ago. Moreover, a good portion of the increased revenues is being carried through to net operating income. In May net

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Meeting Competition of Lower Rail Fares

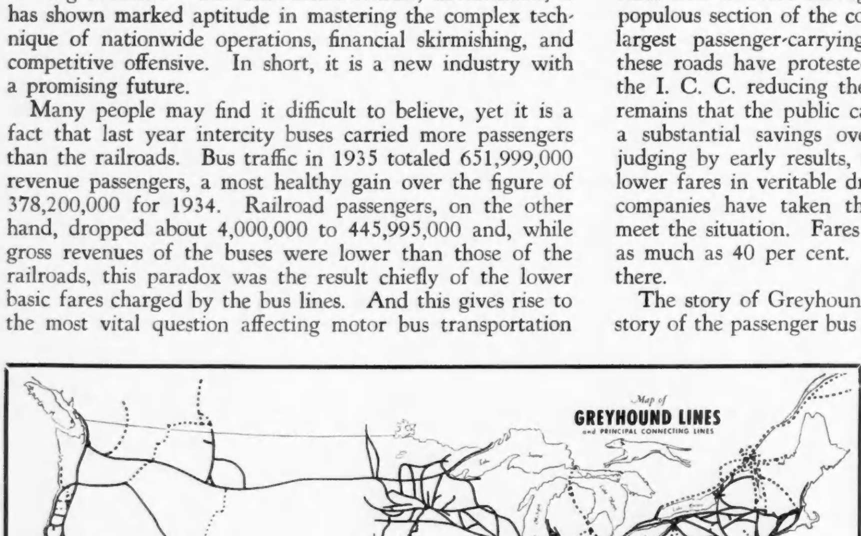
An Appraisal of the Prospect for the Largest Company in the Bus Industry

By Edwin A. Barnes

MOTOR bus transportation has graduated to the ranks of "big business." An unseasoned recruit, nevertheless, it has shown marked aptitude in mastering the complex technique of nationwide operations, financial skirmishing, and competitive offensive. In short, it is a new industry with a promising future.

Many people may find it difficult to believe, yet it is a fact that last year intercity buses carried more passengers than the railroads. Bus traffic in 1935 totaled 651,999,000 revenue passengers, a most healthy gain over the figure of 378,200,000 for 1934. Railroad passengers, on the other hand, dropped about 4,000,000 to 445,995,000 and, while gross revenues of the buses were lower than those of the railroads, this paradox was the result chiefly of the lower basic fares charged by the bus lines. And this gives rise to the most vital question affecting motor bus transportation today—how will the industry be affected by the reduced fares now in force throughout the East? This is the most populous section of the country and it is served by the four largest passenger-carrying railroads. Although three of these roads have protested vigorously against the order of the I. C. C. reducing their basic passenger fares, the fact remains that the public can now travel on the railroads at a substantial savings over the previous basic rates and, judging by early results, the public is taking advantage of lower fares in veritable droves. On the other hand, the bus companies have taken the first and most logical step to meet the situation. Fares have been reduced, in some cases as much as 40 per cent. For the present the matter rests there.

The story of Greyhound Corp. is in a large measure the story of the passenger bus industry. The company's history, featured by its growth from a local one-man bus route to the largest and most comprehensive bus system in the country, its operating experience and its problems exemplify those of the industry as a unit. It follows naturally, therefore, that the same general conclusions and conjecture as to the prospects for Greyhound Corp. apply equally to the entire industry and conversely.



In attempting to make any prediction as to the future of bus transportation, it is first necessary to correct several erroneous impressions which have taken root in the minds of the public. Probably the most generally accepted belief is that the transcontinental and inter-city bus has been

largely responsible for the drastic decline in railroad passenger traffic. While undoubtedly this is partially true, and the railroads have lost some traffic to the buses, it is safe to say that these losses have not been nearly as great as many people suppose. The private automobile has deprived the railroads of more fares than any other single medium; airplane travel has increased steadily, largely at the expense of the railroads; and the depression has been a potent factor.

Are Rails and Buses Competitors?

About ten years ago, Ralph Budd, president of the Great Northern Railway, decided to satisfy himself to what extent the bus lines were eating into the passenger revenue of his road. By the simple expedient of checking ticket sales over a five-year period in the areas where bus operation was prevalent against ticket sales at stations where no buses operated, he discovered that the decline in the non-bus areas had been slightly greater than the other group. He justly concluded that the private automobile was the strongest competitor for his passengers. He was powerless to do anything about automobiles, but he did have an idea about buses—more of which later.

The bus lines and the railroads are regarded as competing mediums and broadly speaking this is true. They are, however, competitors in the same sense that Ford and Buick, ready-made and custom-tailored clothing or automobile camps and hotels compete with each other. The bus simply is a more economical means of traveling than either the railroad or the private car. Its competitive bid is based almost entirely upon pocketbook appeal. It costs the traveler much less to go from New York to Chicago by bus, but it will take him longer than by train and he will have to sacrifice something in the way of comfort and facilities. He will lose some sleep and such food as he consumes will probably be eaten at wayside stands along the route. To many bus travelers the trip is something in the nature of an adventure, inspired by the recent success of several romantic "movies" in which a bus trip figured prominently in the plot.

Obviously then the bus has scant appeal for the traveler pressed for time or one who can afford the greater luxury and comfort of an up-to-date Pullman. Neither will the bus appeal very strongly to anyone who has the time and means to make the trip in his own car.

Low-Cost Transportation

The fact that the bus industry has thrived on the demand for low-cost transportation has given rise to another generally accepted belief which, however, is not altogether supported by the facts. There are many people who feel that the bus was a somewhat curious offspring of the depression, nurtured by the flattened pocketbook of the traveling public. In short, a sort of fleeting phenomenon like miniature golf. Nothing could be further from the truth.

The bus business is comparatively young only in its present scope. Local bus lines were in operation twenty years ago, many of which were the embryo for the present network of routes by which one can travel to almost any city or town in the United States. There is nothing haphazard in the operation of modern inter-city buses. They arrive and depart on schedule; the equipment is carefully serviced and inspected after every trip; operators are skillfully trained and the leading companies identified with the industry conduct their corporate affairs on a scale fully in keeping with modern industrial practices.

Merely because buses provide the cheapest form of travel, it does not necessarily follow that once people feel a little more prosperous they will scorn the bus for the railroad or buy a car of their own and set out to see the country. The probabilities are that those that do so, will be more than offset by increased travel on the part of many persons, who in recent years have been able to afford little or no traveling. After all, the effects of more jobs and better incomes will be relative.

All of which leads to the point that there is a permanent need for low-cost transportation in the United States, which the bus companies fulfill. In every field which supplies public necessities, there are scores of companies which specialize in low-cost merchandise and cater to people with limited incomes. The thriving existence of these companies affords indisputable evidence of their fundamental function. Witness the success of Woolworth, J. C. Penney, Sears, Roebuck, Ford and many others. This is precisely the position of the bus in the transportation industry. In that industry no organization approaches the stature of Greyhound.

Highlights of Greyhound Corp.

Miles of bus routes	**43,000**
Number of buses	**1,750**
Miles traveled—1935	**138,000,000**
Capitalization	
Funded debt	**$808,000**
7% Conv. Pfd. stock—$100 par	**23,021** shs.
Common stock	**597,947** shs.
Earned per share 1934	**5.68**
Earned per share 1935	**7.55**
Earned per share 1st 3 mos. 1935	**0.41**
Earned per share 1st 3 mos. 1936	**0.25**
Recent quotation	**58**
1936 Low	**48¾**
1936 High	**80¼**
Dividend	**$3.20**
Yield	**5.6%**

The Greyhound System extending from coast to coast and connecting most of the principal cities in this area is comprised of thirteen operating companies, six of which are jointly owned with railroads. These roads include Great Northern, Pennsylvania, New York Central, Southern Pacific, Richmond, Fredericksburg & Potomac, and St. Louis Southwestern. Out of the System's total of about 43,000 miles of bus routes, operating companies affiliated with railroads account for nearly 26,000 miles. This tie-up with some of the leading steam carriers in the country was directly the result of an idea conceived by Ralph Budd, president of the Great Northern. It was his belief that the buses and railroads instead of eking out a cat-and-dog existence, mutual advantages would result if both mediums were drawn into a single fold. The buses would serve as feeder lines and provide services over lines where traffic was insufficient to support railroad facilities, while the buses in turn would have the benefit of railroad terminal facilities and interchanged traffic. The probabilities are that the tendency in this direction will continue in the future. In addition to this affiliation with the railroads, Atlas Corp., a large investment trust, and General Motors Corp. have a large stock interest in Greyhound.

Earlier this year Greyhound had 1,725 buses in operation, but with the addition of new units this year the number will be brought up more than 1,800. In addition, the company's facilities include service depots, garages and terminal facilities. One of its most valuable assets, however, are the

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Investment Opportunities in Stocks Which Can Pay Larger Dividends

New Tax Law on Undistributed Earnings Will Force Some Increases

By Ward Gates

THE tendency of the new Federal tax on undistributed corporate earnings unquestionably will be to increase dividend distributions in a period of rising business activity and profits. Yet no sudden rush of dividend increases is to be expected and various qualifications and reservations must be kept in mind in interpreting this new factor as an influence on investment policy.

The short term and long term effects will not be the same. The effect on a growing company which needs to plow back a considerable proportion of earnings into its business will differ from the effect on a company with adequate working capital and reserves. The effect on a company in a stable industry, such as production of shoes or other consumers' goods, will differ greatly from the effect on a company subject to wide cyclical swings in volume and earnings, such as steel or railroad equipment.

Again, corporations may be expected to make various changes in financial and accounting practices in order to offset the increased tax burden as far as is legally possible. For example, there may be a tendency to spend more for current upkeep, to spend more for advertising and to set up larger reserves in order to reduce reported net income. Many companies dealing in volatile commodities probably will alter inventory policies in order to limit taxable profits in periods of rising prices. There will be a tendency to increase issuance of new securities for long term capital needs and to increased bank borrowing for short term capital needs. There will also be a tendency toward payment of dividends in stock or "rights."

In interpreting the tax with relation to the probable dividend policy of any specific corporation, one must take into account possible bond indentures which restrict payment of dividends and the claims and status of preferred stocks, if any. Finally, it must be borne in mind that the Bureau of Internal Revenue has not yet issued the regulations which must be employed in computing taxes under the new system.

In short, this tax innovation is involved and complex and most corporations will go slow in deciding policies relative to it.

On the whole, it will be wise to consider the tax merely as one of many factors to be taken into account in shaping investment policy and as added reason for favoring strong and prosperous companies. Eight such companies are briefly analyzed below.

Fairbanks, Morse & Co.

Earned 1935	$1,465,778
Distributed	361,940
Percentage Retained	75

Several recent developments make inauguration of a dividend on Fairbanks, Morse common stock a logical probability. Accumulations on the $7 preferred stock were eliminated last year under a recapitalization plan. In refunding $6,000,000 of 5% bonds into 4% debentures the company has effected a reduction in fixed charges and at the same time eliminated strictures on payments of common dividends contained in the former bond issue. Finally, the company will be subject to an onerous undistributed earnings surtax, under the new Federal tax law, if it does not pay out a reasonable proportion of this year's profits to common stockholders.

Had the new tax been applicable to 1935 profits, it may be estimated that it would have cost Fairbanks, Morse approximately $203,000 or 13.8% of its net income, in addition to the normal Federal income tax of approximately 15%.

While the company does not issue interim reports, it is estimated that profit for the first half of this year was in the vicinity of $1.75 per common share, as compared with only 40 cents in the first half of 1935. Hence it appears probable that for the full year net will exceed the $2.47 per share earned in 1935 by a wide margin.

Financial position is adequate, current assets amounting at the start of this year to $14,479,223, including $3,436,588 cash, and current liabilities to only $2,143,008. At present price of 49 the common is selling at 19.8 times 1935 net per share but in substantially lower ratio to probable 1936 earnings. On a $1.50 dividend the yield would be a trifle over 3% and on a $2 dividend slightly over 4%. The price takes into account a promising near and long term outlook.

Sears, Roebuck & Co.

Earned 1935	$21,519,000
Distributed	8,098,000
Percentage retained	62

Had the present Federal tax on undistributed corporate profit been in effect last year it would have cost Sears. Roebuck an additional $2,226,000 or 10.3 of its net income, bringing total Federal tax to around 25%. Since earnings thus far this year have been running substantially above those of 1935, it would appear that an increase in the present $2 dividend is in order. Such increase would reduce the tax penalty substantially and would be in line both with increased earnings and adequate working capital position.

This company's sales for the twenty weeks ended June 18 were the largest in its history for such period, topping the same period of 1935 by 20%. For the four weeks ended June 18 the gain was 26%. Profits for the year ended last January 31 was $4.45 per share. On the sales showing to date this year it would seem probable that Sears will earn at least $5 per share and possibly a bit more.

Working capital, as of the most recent balance sheet, was $70,248,000, including $11,382,000 cash. While an enterprise doing an annual merchandising business of more than $400,000,000 needs to maintain large working capital, the penalty tax to which the company is subject is a very considerable inducement to pay a larger dividend. Around 73, the stock is priced at 14 times probable 1936 net per share and yields only 2.7%. On a $3 dividend, it would yield 4.1%.

Only 10% of the farm area of the country is affected by severe drought. Even if unrelieved, it can hardly affect more than 4 or 5% of the Sears, Roebuck customers, since this business blankets the country, both urban and rural. Hence drought will make no major dent in Sears' profit.

Inland Steel Co.

Earned 1935	$9,418,000
Distributed	2,880,000
Percentage retained	69

For the past several years the Inland Steel Co. has followed a conservative dividend policy in order to rebuild working capital and reserves depleted in the years of acute depression in the steel industry. Although it earned $6.54 per common share last year and has been earning still higher profits for the first half of this year the dividend on the common stock is only $3.

Here is a typical example of a company subject to wide swings in volume and profits and hence a company which in the long run would be adversely affected by the penalty tax on undistributed profits to the extent that such tax interfered with the building up of reserves sufficient to carry the enterprise through the next depression. It would have been just too bad if Inland had not been able to retain a goodly share of the profits made in the good years 1924-1929.

But regardless of the long term effects, the present effect of the tax probably will be to induce Inland directors to raise the dividend, for it is likely that the underlying recovery in steel has several more years to run. This tax last year would have added $1,155,000 to the company's tax bill or 12.3 of net income. At the present price of 89 the $3 dividend yields slightly more than 3.3%. A $4 dividend, well within apparent current earning power around $7 a share, would yield nearly 4.5%.

Inland is now down 25 points from the year's high, largely due to uncertainty over the impending effort to force industrial unionization and the closed shop on the industry. This effort may or may not succeed. It would seem, therefore, that at present or moderately lower quotations this issue will have substantially discounted the labor uncertainty. Working capital is approximately $30,000,000, including $9,575,000 cash.

Loew's, Inc.

Earned 1935	$7,580,000
Distributed	4,205,000
Percentage retained	44

For the forty weeks ended June 30 earnings of Loew's, Inc., leading producer of motion pictures and owner of picture theaters, amounted to $7,390,495, as compared with $5,840,351 for the forty weeks ended June 6, 1935. On a per share basis, this was $4.47 against $3.50. For the twelve weeks ended June 4 net was $1.43 per share as compared with 86 cents for the corresponding period a year ago.

Thus the most recent earnings have been at a rate 66% higher than at the same time a year ago, suggesting earnings probably upward of $5 for the year or fully two and one-half times the present $2 dividend rate. This excellent showing in part reflects the "cashing in" on various hits, such as "Mutiny on the Bounty," costs of which tended to hold down last year's profits.

Had the present Federal tax system been in effect last year, the surtax on Loew's would have totalled $477,000 or 6.3% of net income. Added to normal tax of around 15%, this would have made the total Federal income tax approximately 21%. Since the company, on present indications, will show substantially higher earnings this year than last, it is facing a surtax considerably larger than the $477,000 it would have had to pay last year. Hence it would be logical to expect the dividend to be increased to $2.50 or $3 before the end of the year. The stock now is quoted at 50, or ten times probable 1936 net profit per share. The yield is 4%. It would be 5% on a $2.50 dividend and 6% on a $3 dividend.

There has been some complaint of managerial remuneration and options in this company, but motion pictures are an art as much as a business, management is vital and this management, on the record, is one of the best. Working capital, including approximately $7,000,000 cash, is adequate for the business done.

Union Carbide & Carbon Co.

Earned first half 1936 (est.)	$16,000,000
Distributed	10,900,000
Percentage retained	32

Union Carbide & Carbon is among those companies in the forefront of the recovery movement. Earnings of $7,500,000 for the first quarter of this year made this the best first quarter of the company's history. On a per-share basis the first quarter's profits were equivalent to 83 cents a share on each of the 9,000,743 shares of common stock outstanding. For the whole of 1935 the company earned the equivalent of $3.03 a share. This year the profit should not be far from the $4-a-share mark.

Union Carbide which had previously been paying 50 cents quarterly to its stockholders raised the last payment to 60 cents. It is for this reason that the table above has not been based on the showing for 1935, but instead earnings for the first half of this year have been estimated and the amount distributed represents one payment of 50 cents and one of 60 cents a share. As the company is exceedingly strong financially, has only a small funded debt and no

preferred stock outstanding, higher earnings are likely to result rapidly in another increase in the common dividend.

All Carbide's major divisions have been doing very well. Last year the consumption of oxygen per ton of steel produced was the largest on record and the company undoubtedly has benefited importantly from activity in steel so far this year. Various alloys manufactured by the company which are used largely in cutting tools have been aided by the sustained demand for automobiles and other machinery generally. Finally, the chemical division, with its scores of different products, continues to expand mightily and profitably. Although not cheap at today's price of $93 a share and on today's dividend of $2.40, in the case of Union Carbide the market must inevitably discount something of a future so obviously bright.

American Radiator and Standard Sanitary Corp.

Earned (on the common) 1935	$2,463,812
Distributed	nil
Percentage retained	100

Unusually hard hit during the depression, American Radiator & Standard Sanitary Corp. is at last beginning to feel the effects of the upturn that is taking place in building activity. Net profit last year was about double that reported for 1934, although still far below the results of the pre-depression period. Making quarterly reports for the first time in its history, the company showed earnings of $3,504,352 for the twelve months to March 31, 1936. This, after the dividend requirements of the 7 per cent preferred stock, was equivalent to 31 cents a share on each of the 10,039,719 shares of no-par common stock outstanding. The latest report compared most favorably with the 24 cents a share shown for 1935 and indicated that the company's business during the first quarter of 1936 was materially ahead of last year.

As pointed out elsewhere in this issue, the long-term outlook for building is highly favorable. Not only is it a reasonable expectation that the American Radiator & Standard Sanitary Corp. will obtain its full share of the business of equipping new houses with heating and plumbing equipment, but the company should also benefit importantly from the modernization and renovation of existing houses. Usually, when any extensive repairs or improvements are made to a home, heating and plumbing figure conspicuously.

It should, of course, be noted that the large number of shares outstanding are not conducive to sensational results on a per-share basis. Even so, and despite the probability of this year's earnings still being expressed in cents rather than dollars per share, stockholders would seem to have every reason to anticipate some small distribution before long. Incidentally, in connection with the payment of dividends the company's president stated as long ago as last April: "We are just pausing a moment—it may be a few months and it may be less than a few months—before we consider the subject."

Allis-Chalmers

Earned 1935	$1,985,137
Distributed	nil
Percentage retained	100
If current dividend had been effective last year, distribution would have been	$1,344,391
And percentage retained	33

In June Allis-Chalmers placed its common stock on a regular annual dividend basis of $1, the first distribution since May, 1932. This is the natural reflection, of course, of a greatly improved earning power. Last year the company's net income of almost $2,000,000, equivalent to $1.47 a share on the outstanding common stock, compared with a net loss of more than $1,000,000 for 1934. For the first quarter of this year Allis-Chalmers earned the equivalent of 56 cents a share and the company may well earn in the first half of 1936 as much as was shown for the full year, 1935.

Manufacturing an unusually diverse line of machinery, the improved earnings are the result of increased demand in the more important lines. These include all kinds of industrial plant machinery, heavy electrical apparatus, also a line of farm tractors and machinery. The latter has been doing particularly well and sales in this division have been running at record levels. It is too early to know to what extent the drought will slow down the sale of farm equipment, although it is a reasonable expectation that some adverse effects will be felt. So far as Allis-Chalmers itself is concerned, however, any slackening in the farm division that is likely to occur should be more than offset by the further improvement in other divisions.

Although the common stock of Allis-Chalmers at today's price of $44 a share has come a long way from the $4 a share for which it sold in 1932, it has been a rise reflecting real improvement in business and prospects and it is very much to be doubted that the possibilities have been fully discounted.

Gulf Oil Corp.

Earned 1935	$10,551,720
Distributed	nil
Percentage retained	100
If current dividend had been effective last year, distribution would have been	$4,538,101
And percentage retained	57

The Gulf Oil Corp. issues only annual reports, so that there are no concrete figures to show how the company has done this year. So far in 1936, however, the industry as a whole is known to have made progress and there is no reason to suppose, where oil is concerned, that Gulf will be an exception. For 1935 the company reported a net profit of $10,551,720, after depreciation, depletion, interest, taxes and other charges. This was equivalent to $2.32 a share on 4,538,101 shares of common stock and compared favorably with the 62 cents a share for 1934.

Gulf Oil, whose reserve position has long been held to be among the strongest, recently sold its subsidiary, South American Gulf, to the Texas Corp. The consideration was $12,500,000 and the transaction was noteworthy because of South American Gulf's control of the famous Barco concession in Colombia. This money will further bolster a strong financial position — a position which is being constantly improved by lessening the burden of fixed charges. Last year, the company made a net reduction of more than $3,000,000 in funded and long-term debt and materially reduced the charges on the remainder. In June Gulf Oil announced that it would retire on August 1, the last of its 5% debentures, outstanding in the amount of nearly $32,000,000.

In the past, few companies have pursued more vigorously than Gulf the practice of ploughing back earnings into the business. Prior to the depression, out of earnings of eight or nine dollars a share, the stockholders were paid $1.50. Now, of course, they possess a huge equity, but it is the very manner in which this equity has been built up that the Government frowns upon. Assuming no loopholes and that the Government succeeds in achieving its objective, Gulf Oil is clearly among the companies that will have to revise drastically its past dividend policy.

The Business Analyst

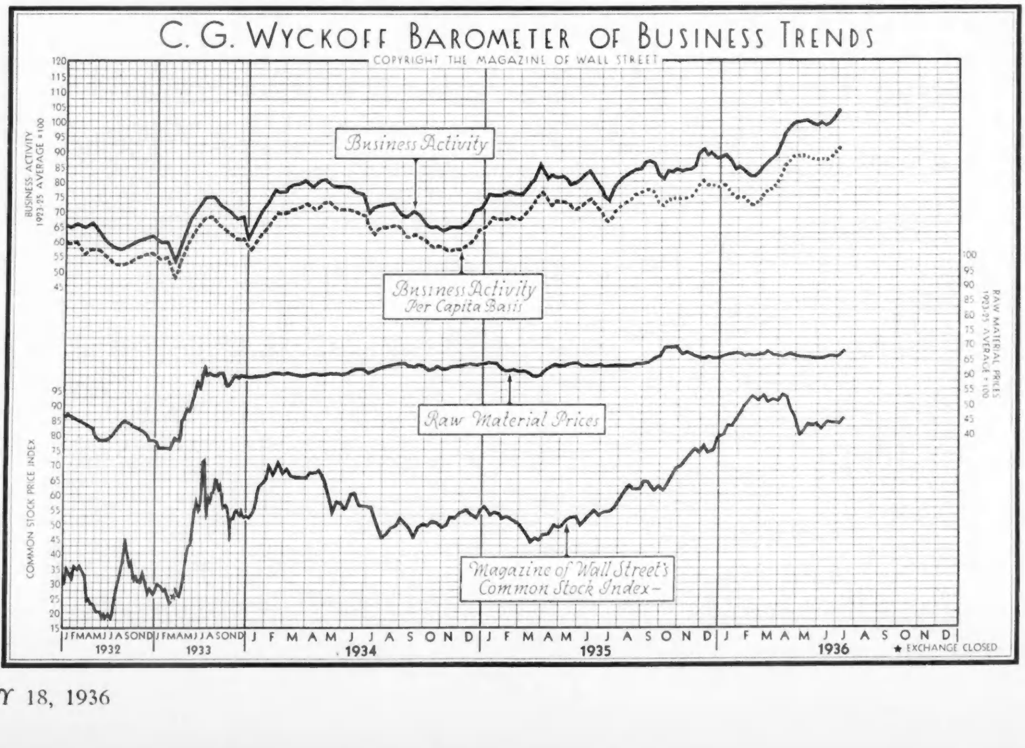
— Trade Well Sustained
— Artificial Stimulants Present
— Labor Crisis Coming
— Steel Activity Holds Up
— Motor Profits Spurt

THE month of June has closed with a sharp bulge in Business Activity in which all components of our index (revised moderately upward through inclusion of cotton textile mill activity, from mid-March onward) have participated. For the full month of June, goods and services were produced at an annual per capita rate of 87.9% of normal, which represented a gain of 22.5% over the corresponding period of 1935, against an increase of 21.5% for May, 18.6% for April, 21.5% for the entire second quarter, and 15.5% for the first six months of the current year.

As this issue goes to press, still further improvement has lifted the Business Activity Index to well above the hundred level, which corresponds with the 1923-5 average. And yet, though 1923-5 be rightfully regarded as a normal period, it would not do to reason from this that business now has reached normal. A few commentators have jumped to just such an erroneous conclusion, failing to realize that a volume of business which was normal in 1924, for a population of only 113,000,000, is still far from meeting the present needs of 15,000,000 more people than had to be fed, clothed and sheltered twelve years ago. On a per capita basis, the country's annual rate of production is still about 9% below normal. This is the best showing, however, since May, 1930, and means that, after suffering from a major depression that lasted just a month more than six years, we have at last emerged into what may be characterized as only a minor depression, since economists generally class as "minor" any business recession that amounts to no more than 10% below normal.

Unfortunately, several factors which have contributed to the past fortnight's gratifying improvement are obviously artificial, and may eventually be paid for by a comparable contraction in general business volume; though present prospects favor the continuation of a comparatively high level of activity well on into the summer months. Soldier bonus expenditures, for example, are helping to clear up the used car inventory situation and are a strong sustaining force in new car sales which should be felt for at least another month. Advance orders for steel placed last month to take advantage of the old lower price schedules, conjoined with stocking of steel in anticipation of labor trouble, are likely to prevent any severe slump in that industry during the third quarter unless plants should be closed by labor disturbances. There has also been a certain amount of advance buying in food lines prompted by swiftly rising prices occasioned by the worst drought in years; while mounting quotations for cotton have stimulated abnormally heavy activity at the textile mills.

Looking somewhat farther ahead it would seem that continued circulation of soldier bonus money should help in some directions to ameliorate the damages wrought by crop failures and renewed destruction of livestock. Up to the present writing practically no falling off in retail trade has been reported from the stricken areas; but, judging by the experience of 1934, agricultural implement makers, the



smaller meat packers, and railroads serving the drought regions are bound to suffer some loss of business.

A collateral consequence of the drought may be to divert votes this autumn from the party now in power, which will be held accountable for soaring food costs. Regardless of election returns, however, and in spite of the additional drain for drought relief, it is on the calendar that Government expenditures will be rather sharply reduced next year—if for no other reason than that soldier bonus payments will not have to be repeated. Consequently the powerful business stimulant furnished by huge Government deficits is going to be partially withdrawn and this may slow down the pace of recovery unless its role should be replaced promptly by a considerable expansion in private expenditures for capital goods.

The Trend of Major Industries

STEEL—The drop in steel mill activities upon resumption of operations after the Fourth amounted to less than two points on a daily average basis, and filling of orders placed at second quarter prices is expected to keep plants busy for the next few weeks. A further influence which should tend to sustain operations at an unusually high summer level is the possibility of labor trouble which has induced large industrial consumers to stock up moderately as a precaution against inability to obtain steel later on. Thus far, however, the possibility of a serious tie-up is not taken very seriously in trade circles. Soldier bonus spending is holding automobile production up to a high level and so, as model alterations are not expected to be radical this coming season, it is believed that the change-over will cause only a comparatively brief interruption this summer in the flow of automotive steel from mills to consumers. One consideration which has perhaps not yet been accorded sufficiently serious attention is the difficulty many mills are likely to encounter in meeting demands if business recovery proceeds much farther in the near future, owing to obsolescence of equipment. Though the industry is now operating at 70% of theoretical capacity, this is believed to be near 100% of practical capacity on a single shift basis; owing to the bad condition of the remaining 30% of equipment. To materially increase output above current levels would necessitate either extensive repairs and replacements, which take time, or going over to a two-shift basis, for which an adequate supply of skilled labor is not available.

METALS—The Bolivian delegation to the International Tin Committee has relinquished to other producing countries its arrears in exports, due to inability to produce in quantities allowed by her quota, and the Committee thereupon fixed the total quota of signatory governments at 90% for the third quarter, an increase of 5% over the second quarter, in order to permit other countries to make up Bolivia's arrears in shipments. World consumption of the metal during April is placed at 11,895 tons, an increase of 300 tons over April, 1935. The Federal Trade Commission has ordered 15 tin plate manufacturers to void their agreement not to sell second grade, or "stock," tin plate, which has been consumed hitherto mostly by small manufacturers of tin cans. Domestic stocks of slab zinc are now 25% lower than a year ago.

PETROLEUM—Heavy consumption and lower production over the holidays have reduced gasoline stocks to the lowest level since January, while crude output during the past fortnight was the smallest since mid-April. A firmer tone has therefore appeared in the mid-continent tank car gasoline market.

SULPHUR—An increase to $2 a ton, from the former rate of 60 cents, in Louisiana's tax on sulphur, hits Freeport Texas Co. especially, with production of 500,000 tons annually in that state, and which is estimated to have earned only 61 cents a share above the former tax during the first quarter.

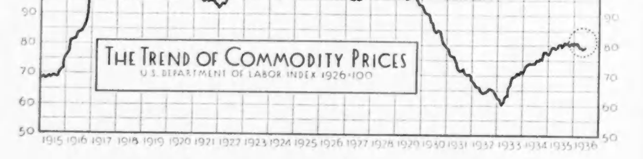
TOBACCO—Aggregate earnings of the big four cigarette manufacturers for the first six months are believed to have been about $6,000,000 more than for the like period of 1935.

AUTOMOBILES—Total profits of the nine leading automobile producers (excluding Ford) for the second quarter are now estimated to have been 68% ahead of the first quarter and 75% better than earnings for the second quarter of 1935.

REFRIGERATORS—Domestic sales of household refrigerators in May reached an all time peak of 300,000 units, an increase of 34% over May, 1935.

Conclusion

The third quarter opens with business emerging from a major depression that has lasted for six years into a zone generally characterized by economists as merely a minor business depression. Present prospects favor a comparatively high rate of business activity for at least the first half of the third quarter, owing partly to advance buying in anticipation of labor trouble and higher prices. Beyond this, however, the outlook is somewhat clouded by possibilities of receding Government deficits, labor strife, drought consequences, and the inevitable aftermath of piling up excessive inventories. Considerations such as these suffice to account for softness in our Common Stock Index during the past fortnight, although this has now given way to renewed rally.

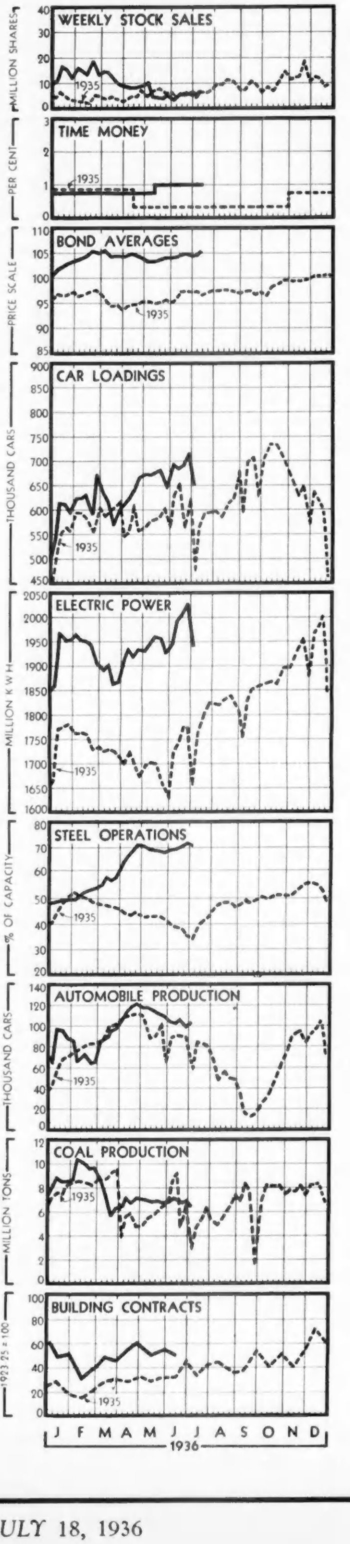


Changes in Major Commodity Price Group for the Fortnight Ended July 4, 1936

Farm Products	up	2.8	Metals	up	0.1
Foods	up	1.1	Building materials	up	0.1
Hides and leather	down	0.2	Chemicals	down	0.3
Textiles	up	0.1	Housefurnishings	down	0.3
Fuel and lighting	no change		Miscellaneous	up	0.7

The Magazine of Wall Street's Indicators

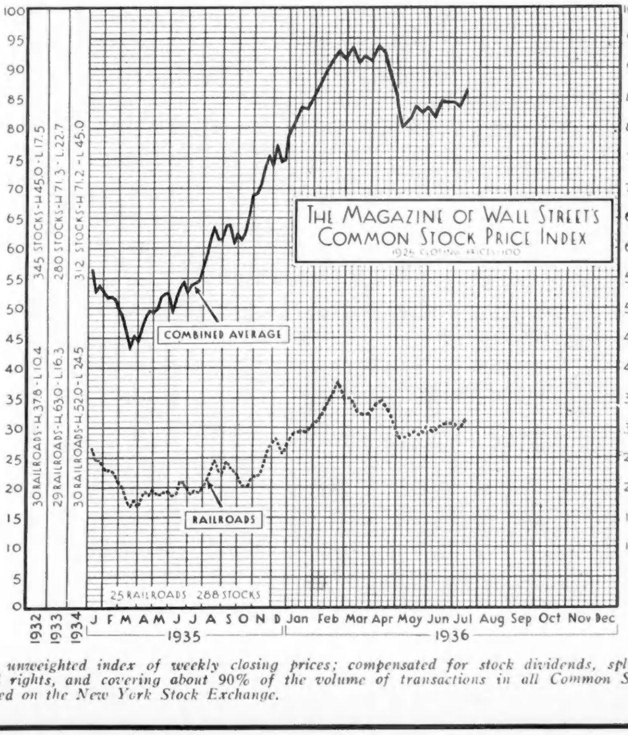
Business Indexes



Common Stock Price Index

1935 Indexes High	1935 Indexes Low	1935 Indexes Close	Number of Issues	(1925 Close—100)	1936 Indexes High	1936 Indexes Low	June 27	July 4	July 11
78.6	43.0	78.4	295	COMBINED AVERAGE	93.9	78.4	84.2	83.3	86.1
119.5	64.1	113.4	5	Agricultural Implements	186.9	113.4	181.9	169.0	164.5
41.9	17.8	41.6	6	Amusements	50.8	39.9	41.1	40.9	43.6
116.9	44.6	116.9	14	Automobile Accessories	142.2	116.8	120.9	118.6	121.6
17.7	8.8	17.7	13	Automobiles	24.2	17.7	20.5	20.3	20.8
108.2	41.3	108.2	7	Aviation (1927 Cl.—100)	141.0	104.3	115.5	112.9	122.0
14.7	7.9	14.7	3	Baking (1926 Cl.—100)	17.6	12.6	13.4	13.9	13.1
325.0	184.9	318.6	2	Bot. & Cks. ('32 Cl.–100)	406.2	318.6	392.5	394.2	406.2H
209.9	113.7	209.9	3	Business Machines	251.0	202.8	207.6	202.8x	208.5
316.6	226.1	287.4	2	Cans	287.5	250.9	269.0	269.0	273.7
202.7	144.6	195.6	8	Chemicals	224.1	187.5	191.4	189.3	198.5
42.8	22.6	42.8	10	Construction	62.9	42.8	52.8	52.2	55.2
88.6	35.7	87.9	6	Copper & Brass	123.6	87.9	107.9	106.2	113.7
39.3	27.5	39.3	2	Dairy Products	47.6	39.3	45.7	47.1	47.6h
26.6	16.0	23.5	9	Department Stores	27.7	23.3	26.6	26.7	27.7
87.6	56.1	85.8	7	Drugs & Toilet Articles	98.9	72.8	73.1	72.8x	73.1
270.0	211.2	231.8	2	Finance Companies	336.1	227.2	333.3	336.1H	342.5
66.2	51.8	62.0	7	Food Brands	70.1	61.7	63.4	61.7x	63.1
56.4	46.2	47.1	4	Food Stores	50.3	41.5	43.3	42.0	41.5x
65.7	32.1	65.7	3	Furniture & Floor Cover	76.9	65.7	71.5	71.5	74.6
1209.7	990.2	1116.0	3	Gold Mining	1296.9	1116.0	1242.1	1219.8	1183.0
46.8	35.3	46.8	5	Household Equipment	54.4	46.5	49.1	48.5	50.0
38.7	17.0	38.3	5	Investment Trusts	45.3	36.6	40.6	40.7	42.2
359.0	223.6	323.8	2	Liquor (1932 Cl.—100)	333.8	265.2	271.3	272.4	271.3
139.0	65.1	139.0	9	Machinery	160.8	134.7	143.2	140.7	144.1
67.3	36.0	65.9	2	Mail Order	76.5	61.3	74.7	73.3	74.7
63.0	34.5	62.4	4	Meat Packing	83.9	59.4	60.1	59.6	66.2
183.6	109.4	169.5	10	Metal Mining & Smelting	189.4	159.5	162.7	159.5x	162.8
97.2	51.3	97.2	24	Petroleum	122.3	79.2	105.0	104.0	110.1
67.2	23.0	67.2	18	Public Utilities	88.8	67.2	79.2	84.4	88.8h
33.0	15.9	31.5	3	Radio (1927—100)	35.4	26.7	29.5	29.1	29.0
55.7	29.3	55.7	8	Railroad Equipment	73.8	52.5	58.0	57.3	56.6
28.8	16.5	27.3	24	Railroads	37.6	27.3	30.7	29.8	31.3
16.8	5.2	16.1	3	Realty	22.9	13.4	15.0	14.0	15.0
76.4	28.5	76.4	3	Shipbuilding	87.6	62.7	72.5	71.5	74.6
88.1	37.6	88.1	11	Steel & Iron	110.7	85.2	90.1	87.2	91.0
30.4	21.1	30.4	5	Sugar	41.3	29.8	37.8	36.6	36.5
153.6	122.5	153.6	2	Sulphur	175.6	144.0	155.0	151.2	144.0x
78.3	34.2	77.5	3	Telephone & Telegraph	97.4	76.6	85.1	85.1	88.1
73.5	34.7	70.5	8	Textiles	81.4	62.0	64.6	62.2	65.1
10.6	6.0	10.6	4	Tires & Rubber	15.9	10.6	14.2	14.0	14.1
101.8	77.2	96.5	4	Tobacco	100.2	87.2	93.0	94.4	95.9
85.4	51.0	72.1	4	Traction	76.2	61.0	65.1	63.7	64.0
282.8	219.7	259.5	4	Variety Stores	267.8	232.5	260.5	260.5	264.4

H—New HIGH record since 1931. h—New HIGH this year. x—New LOW this year.



An unweighted index of weekly closing prices; compensated for stock dividends, splitups, and rights, and covering about 90% of the volume of transactions in all Common Stocks listed on the New York Stock Exchange.

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1. Give all necessary facts, but be brief.
2. Confine your request to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber, use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

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CORN PRODUCTS REFINING CO.

I am told the earnings outlook for Corn Products Refining is very favorable. I am wondering though to what extent this is reflected in the common stock. Do you think it will move higher in the near future?—B. N., Hartford, Conn.

We agree with your informant with regard to the outlook for Corn Products. As to the extent that that favorable outlook has been already discounted, the best gauge is probably in weighing the merits of the stock on the basis of its present financial status, past record in earnings and well established position. On that basis the shares do not seem overpriced at present levels. Currently the earnings show a distinctly upward trend. With the report for the first quarter of 1936 registering earnings per share at 93 cents, and with the outlook during the second quarter indicating that the showing will be equally satisfactory. A comparison with the first half of last year, will likely show an increase of over 50% per share on earnings. While earnings of this company are subject to a large extent to the influences common to business enterprises generally, there are certain factors which make for stability. Sales of package goods constitute about one-third of the total volume, and are relatively stable. The sale of bulk goods on which the profit margins are fairly uniform, constitute a large percentage of the total. The volume in both departments is on the uptrend. Moreover, the full extent of the improvement is not disclosed in the reports since only dividends actually received from its foreign subsidiaries are included in the income account. These foreign investments are growing in importance. The large investment of this company in foreign subsidiaries was undertaken some years ago as a defensive measure in an attempt to protect foreign markets for its products. In this endeavor it has been successful. By establishing foreign subsidiaries in England, Germany, Italy, Czecho-Slovakia, Argentina, Mexico, Canada, France and elsewhere including the Far East, this company is able to process the corn production in South America and Europe and meet competition from European processors successfully. These facts are recounted to show the position of Corn Products as dominant unit in its field. To further show how well it has fortified itself to protect its position and earning power. As to the financial position, a glance at the balance sheet discloses current assets in excess of $50,000,000 against total current liabilities of $8,000,000; holdings of cash of over $16,000,000 and marketable securities at current quotations only a little short of $20,000,000. We do not believe, therefore, that the present market price is too much to pay for a stock of this caliber and we feel assured that the prospect for the company and for its shares marketwise is favorable.

BEATRICE CREAMERY CO.

Now that approval has been given to the proposed exchange of Beatrice Creamery 7% preferred for a $5 cumulative preferred, can I expect an improved outlook for my common stock? To what extent is improvement possible?—F. G., Duluth, Minn.

Operating as the third largest organization in the domestic dairy products field, Beatrice Creamery Co. is engaged in all divisions of the business, although its principal product is butter, with milk, eggs and ice cream also large profit determinants. As was the case with all of the major organizations operating in this field, the large oversupply of fluid milk has reacted unfavorably upon earnings during recent years with the result that preferred dividend requirements were not fully covered in either of the two fiscal years prior to that ended February 28, 1935. During that fiscal year conditions in the industry began to improve as a result of a better relationship between supply and demand brought about by expanding consumption and the drought, which curbed milk production. Net sales during the fiscal year ended February 29, 1936, increased 4% over the preceding fiscal year, but cost of sales were higher and this resulted in the less favorable earnings showing of 41 cents a share on the common, after preferred requirements, against $1.32 a share the year before. A break in butter quotations during the year and less favorable con-

(Please turn to page 435)

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New York Stock Exchange Pri[ces]

Rails

	1934		1935		1936		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	7/8/36	Share
A								
Atchison	73¾	45¼	60	35¾	86⅝	59	74¾	‡2
Atlantic Coast Line	54¼	24½	37¼	19½	35¾	21⅝	24	..
B								
Baltimore & Ohio	34½	12¾	18	7½	24¼	15⅞	17⅝	..
Bangor & Aroostook	46⅛	35½	49½	36⅛	49½	41⅞	41⅞	2.50
Brooklyn-Manhattan Transit	44⅞	28¼	46¾	36½	50½	40¼	47½	3
C								
Canadian Pacific	18¼	10⅞	13¾	8⅝	16	10⅞	12½	..
Chesapeake & Ohio	48⅝	39½	53¼	37⅛	64½	51	64½	2.80
C. M. & St. Paul & Pacific	8½	2	3	¼	2⅞	1½	1⅝	..
Chicago & Northwestern	15	3½	5⅝	1⅜	4⅞	2½	2⅞	..
D								
Delaware & Hudson	73½	35	43½	23½	52	36¾	38¾	..
Delaware, Lack. & West	33¾	14	19⅛	11	23⅛	14⅞	16	..
E								
Erie R. R.	24⅞	9⅜	14	7⅛	17⅝	11	12¼	..
G								
Great Northern Pfd	32½	12¼	35⅛	9⅝	44	32¼	36¼	..
H								
Hudson & Manhattan	12⅛	4	5½	2¾	5⅞	3⅛	3⅛	..
I								
Illinois Central	38⅞	13⅝	22¼	9½	28⅞	18⅝	21	..
Interborough Rapid Transit	17½	5¼	23⅝	8¾	18⅞	11½	13	..
K								
Kansas City Southern	19¾	6⅝	14½	3¾	26	13	20	..
L								
Lehigh Valley	21¼	9½	11½	5	14⅜	8½	9¾	..
Louisville & Nashville	62½	37¾	64¾	34	77½	57½	75	‡2
M								
Mo., Kansas & Texas	14⅞	4⅜	6⅜	2½	9⅝	5½	8	..
Missouri Pacific	6	1½	3	1	4	2⅛	2¼	..
N								
New York Central	45¼	18⅜	29¾	12¼	42¼	27¾	35½	..
N. Y., Chic. & St. Louis	26⅞	9	19	6	35½	17¾	29½	..
N. Y., N. H. & Hartford	24⅛	6	8½	2⅝	5⅝	3	3⅛	..
N. Y., Ontario & Western	11⅝	4½	6½	2⅝	7½	4⅛	4⅛	..
Norfolk & Western	187	161	218	158	275	210	275	*8
Northern Pacific	36¼	14½	25¼	13⅛	36¾	23⅞	25⅜	..
P								
Pennsylvania	39⅛	20⅛	32½	17¼	39	28¼	32⅛	‡1
Pere Marquette	38	12	34½	9¼	37½	25⅛	35	..
S								
St. Louis-San Fran	4⅝	1⅛	2	¾	3⅝	1½	2	..
Southern Pacific	33¾	14⅞	25½	12¾	38⅞	23½	32¾	..
Southern Railway	36½	11½	16½	5½	20⅝	12¾	15⅝	..
U								
Union Pacific	133⅞	90	111½	82½	138¼	108½	125	6
W								
Western Maryland	17¼	7⅛	10⅛	5½	12⅛	8⅛	8¼	..
Western Pacific	8½	2⅝	3⅜	1⅛	4	2	2	..

Industrials and Miscellaneous

	1934		1935		1936		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	7/8/36	Share
A								
Adams-Millis	34⅞	16	37¼	38	35¾	17⅞	19	‡.75
Air Reduction	113	91¾	173	104¾	70½	58	69½	*1
Alaska Juneau	23⅞	16⅝	20⅛	13¼	17⅜	13¼	13⅞	*.60
Allegheny Steel	23⅛	15	32	21	39¼	26⅞	27	1
Allied Chemical & Dye	160¾	115⅛	173	125	208	157	199	6
Allis Chalmers Mfg	23⅜	10⅜	33⅞	12	50½	35⅜	43¾	1
Alpha Portland Cement	20⅛	11½	22¾	14	28½	19¾	21⅛	1
Amer. Agric. Chemical (Del.)	48	25¼	57¾	41½	63¼	50	51½	3
American Bank Note	25¼	11½	47¾	13½	55½	37	37¾	1
Amer. Brake Shoe & Fdy	38	19½	42½	21	50⅞	40	47	1.60
American Can	114¾	90¼	149⅝	110	135¼	115¾	132¾	*4
Amer. Car & Fdy	33⅞	12	33⅞	10	41	30	33½	..
American & Foreign Power	13¾	3⅞	9¼	2	9¾	6½	7¾	..
Amer. Power & Light	12¼	3	9⅝	1½	13½	7½	12⅞	..
Amer. Radiator & S. S	17⅝	10	25⅛	10½	27¾	18¾	19¼	..
Amer. Rolling Mill	28¼	13½	32⅜	15¾	34	23¾	24	1.20
Amer. Smelting & Refining	51¼	30¼	64⅝	31⅝	91½	56¾	76¼	2
Amer. Steel Foundries	26½	10⅛	25¼	12	33⅜	20½	27½	..
Amer. Sugar Refining	72	46	70½	50⅛	61⅛	48¼	52½	2
Amer. Tel. & Tel	125¼	100⅛	160½	98⅞	178	149½	167½	9
Amer. Tob. B	89	67	107	74¾	104	88½	100¼	5
Amer. Water Works & Elec	27⅝	12⅝	22¾	7⅛	25¼	19⅛	24	..
Amer. Woolen Pfd	83¾	36	68¾	35½	70¾	54¾	64	2
Anaconda Copper Mining	17¾	10	30	8	39¾	28	34¼	‡.50
Armour Co. of Ill.	6¾	3½	6⅛	3¼	7⅜	4⅝	4⅝	..
Atlantic Refining	35¼	21½	28	20½	35⅛	26⅝	28¾	1
Auburn Auto	57⅜	16½	45½	15	54¼	26⅝	28	..
Aviation Corp. Del	10¾	3¾	5¼	2¾	7¾	4⅝	5	..
B								
Baldwin Loco. Works	16	4½	6⅝	1½	6⅞	2⅝	2⅝	..
Bayuk Cigar	45¾	23	66¾	37½	18¾	16¾	17⅛	.75
Beatrice Creamery	19¾	10¼	20⅛	14	26	18	23¾	23⅜
Beech-Nut Packing	76⅝	58	95	72	96	85	94	*3
Bendix Aviation	23⅞	9¾	24½	11⅞	31¾	21⅝	25¼	1
Best & Co.	40	26	57½	34	57¼	45	55¼	*2
Bethlehem Steel	49½	24⅛	52	21⅝	63¾	45¾	48¼	..

Price Range of Active Stocks

Industrials and Miscellaneous *(Continued)*

	1934 High	1934 Low	1935 High	1935 Low	1936 High	1936 Low	Last Sale 7/8/36	Div'd $ Per Share
B								
Bohn Aluminum	68¾	44½	59⅞	39⅝	63⅛	44	45	3
Borden Company	28¼	19⅞	27¾	21	30⅞	25⅝	30⅜	1.60
Borg Warner	31⅜	16⅛	70½	28¼	83½	64	74½	3
Briggs Mfg	28⅜	12	55⅜	24½	64⅞	43¼	53	*2
Bristol-Meyers	37½	26	42	30⅜	48½	41	47⅛	*2
Burroughs Adding Machine	19⅜	10½	28	13¼	33¼	25	25⅛	*.60
Byers & Co. (A. M.)	32¾	13¾	20⅝	11⅜	25¼	16½	17¼	..
C								
California Packing	44⅜	18¾	42½	30½	37⅝	30¼	32	1.50
Canada Dry Ginger Ale	29½	12½	17⅝	8⅛	16½	10⅜	13¼	..
Case, J. L	86¾	35	111¼	45¾	186	92½	162½	..
Caterpillar Tractor	38¾	23	60	36½	79	54¾	72½	2
Celanese Corp	44⅞	17⅛	35⅜	19½	32¼	21¾	22⅞	‡.50
Cerro de Pasco Copper	44½	30¼	65¾	38⅝	58	47¾	52¼	4
Chesapeake Corp	48⅞	34	61¼	36	76½	59	76½	3
Chrysler Corp	60⅜	29¼	93⅞	31	115	85½	110¾	6
Coca-Cola Co	161½	95¼	93	72½	102	84	100½	2
Colgate-Palmolive-Peet	18⅛	9⅜	21	15⅛	20½	13	13¾	.50
Columbian Carbon	77¼	58	101¼	67	134	94	122	*4
Colum. Gas & Elec	19¼	6⅝	15¾	3⅜	21⅝	14	19⅞	‡.20
Commercial Credit	40¼	18⅝	58	39½	64⅞	44	63⅝	3
Comm. Inv. Trust	61	35¾	72	56¼	82¾	55	76	*3.60
Commercial Solvents	36¾	15¾	23⅞	16½	24⅝	14¼	14¾	.60
Congoleum-Nairn	35⅜	22	27	45¾	44½	32⅝	34	1.60
Consolidated Edison of N. Y.	47⅜	18½	34¾	15⅞	39	27¼	38¾	1
Consol. Oil	14¼	7¼	12¼	6½	15¼	11½	12⅝	.60
Container Corp.	....	....	23⅛	22	26¼	15¾	18½	1
Continental Can	64½	56¾	99¼	62¾	87¼	67½	76½	3
Continental Insurance	36¼	23⅜	44⅞	28⅞	46	35½	39½	*1.20
Continental Oil	22¾	15¾	35	15⅛	38½	28⅛	30⅜	1
Corn Products Refining	84½	55½	78⅜	60	82½	68½	72½	3
Crown Cork & Seal	36¼	18¾	48⅞	23½	63¾	43⅝	59⅝	1
Cutler-Hammer	21½	11	47	16	65	43¼	56¼	*1
D								
Deere & Co	34⅛	10⅛	58¾	22¾	89¼	52	71	..
Diamond Match	28½	21	41	26½	40½	33⅞	34	*1.50
Distillers Corp. Seagrams	26⅝	8⅞	38½	13⅝	34⅝	18¼	21½	..
Dome Mines	46¼	32	44⅞	34⅛	61½	41½	55¼	*2
Douglas Aircraft	28½	14¼	58⅜	17½	75¾	50⅝	62¼	..
Du Pont de Nemours	103⅞	80	146½	86⅝	153	133	150½	*3.60
E								
Eastman Kodak	116½	79	172¼	110½	172	156	168⅞	*5
Electric Auto Lite	31⅜	15	38⅜	19⅜	44⅝	30¾	34¼	1.20
Elec. Power & Light	9⅝	2¼	7½	1⅛	17⅛	6⅜	16⅞	..
Electric Storage Battery	52	34	58¾	39	55¼	42⅝	42¾	*2
F								
Fairbanks, Morse	18¾	7	39½	17	53⅜	34¾	48½	..
Firestone Tire & Rubber	25¼	13⅛	25½	13⅛	33⅛	24⅞	27¾	1.20
First National Stores	69¼	53	58⅞	44⅜	48¾	40	47⅜	2.50
Foster Wheeler	22	8½	30	9⅞	38¾	24⅛	26	..
Freeport Texas	50⅜	21½	30⅝	17¼	35⅝	24⅜	24¾	1
G								
General Amer. Transpt	43⅝	30	48½	32⅝	63	42¼	48	1.75
General Baking	14⅜	6½	13⅜	7⅜	14¾	10¾	11⅛	.60
General Electric	25¼	16⅞	40⅞	20½	41⅞	34½	38	1
General Foods	36⅞	28	37½	30	43⅛	33⅜	40⅞	1.80
General Mills	64½	51	72½	59⅞	70½	59¾	65¼	3
General Motors	42	24⅝	59⅜	26⅝	71	53⅞	67	*2
General Railway Signal	45¾	23½	41¼	15⅝	50	32½	33	1
General Refractories	23⅜	10⅛	33½	16¾	44½	33¼	34	1
Gillette Safety Razor	14⅞	8½	19½	12	18⅝	13⅝	14	1
Glidden	28⅜	15⅝	49½	23⅜	55¼	39¾	42⅞	2
Gold Dust	23	16	22	14⅜	21⅜	12¾	13⅛	.60
Goodrich Co. (B. F.)	18	8	14½	7½	23⅞	13⅝	18⅜	..
Goodyear Tire & Rubber	41⅜	18½	26⅞	15¾	31⅞	21⅝	22⅜	..
Great Western Sugar	35¼	25	34⅞	26⅝	39	31	34⅝	2.40
H								
Hercules Powder	81⅝	59	90	71	112	84	112	5
Hershey Chocolate	73¾	48½	81¾	73¼	80	70	70½	3
Hudson Motor Car	24½	6⅛	17½	6¼	19¾	13½	15¾	..
Hupp Motor Car	7¼	1⅞	3⅞	¾	3¼	1	2	..
I								
Industrial Rayon	32¼	19⅜	36⅜	23½	34⅝	25⅝	27⅞	1.68
Ingersoll-Rand	73¾	49½	121	60½	147	106	130	*2
Inter. Business Machines	164	131	190½	149¼	185¼	160	171	*6
Inter. Cement	37¾	18⅜	36⅞	22⅞	49¾	35½	47⅜	1.50
Inter. Harvester	46⅞	23¼	65⅝	34⅛	90½	56⅝	80	1.20
Inter. Nickel	29¼	21	47¼	22¼	54¼	43¼	49⅞	1.20
Inter. Tel. & Tel	17¾	7½	14	5⅝	19¼	12⅛	13⅞	..
J								
Jewel Tea Co	57½	33	67	49	79	58½	79	*4
Johns-Manville	66⅜	39	99½	38½	129	88	103½	2
K								
Kelvinator	21¼	11⅝	18¼	10¼	25⅝	14¾	19⅛	*.50
Kennecott Copper	23⅛	16	30⅜	13¾	41⅝	28¼	38⅝	1.20
Kroger Grocery & Baking	33⅝	23¼	32⅛	22¼	28	18⅜	19½	1.60
L								
Lambert	31¾	22¼	28½	21¾	26¾	19⅛	20⅛	2
Lehman Corp	78	68¼	95¾	67⅛	103⅜	89	100	*3
Libbey-Owens-Ford	43⅞	22½	49¼	21½	63⅛	47¼	58¾	2
Liggett & Myers Tob. B	111¼	74½	120	94¼	116½	97¾	110	*4
Loew's	37	20⅜	55⅛	31¼	54⅞	43	49⅝	*2
Lorillard	22½	15¾	26½	18½	26½	21⅛	23¼	1.20
M								
Mack Truck	41¾	22	30⅝	18⅝	37	27⅜	32½	1
Macy (R. H.)	62⅛	35¼	57½	30½	49⅜	40⅛	43½	2
Mathieson Alkali	40¾	23½	33⅞	23¾	36½	27½	30	1.50
May Dept. Stores	45¾	30	57¾	35⅞	53½	43¼	53¼	2
McIntyre, Porcupine	50½	30½	45⅝	33¾	49⅜	39⅝	43	2

Dividends and Interest

New York Stock Exchange Price Range of Active Stocks

Industrials and Miscellaneous *(Continued)*

	1934		1935		1936		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	7/8/36	Share
M								
McKeesport Tin Plate	95⅛	79	131	90½	118½	96	99½	*4
Mesta Machine	34¾	20⅛	42⅝	24⅛	51¾	40⅝	47¾	3
Monsanto Chemical	96½	39	94¾	55	103	79	96	*1
Mont. Ward & Co	35⅝	20	40⅞	21¾	45⅞	35¾	42⅜	.80
N								
Nash Motor	32¼	12⅝	19½	11	21⅞	15⅝	16¼	1
National Biscuit	49½	25⅞	36⅜	22¼	38¾	31⅛	33	1.60
National Cash Register	23⅝	12	23½	13½	30	21½	22½	.50
National Dairy Prod	18¾	13	22⅛	12⅞	28¼	21	27½	1.20
National Distillers	31⅝	16	34½	23⅛	33⅜	25⅝	27	2
National Lead (New)	....	....	....	....	31⅜	26⅜	26½	.50
National Power & Light	15½	6⅝	14¾	4⅞	14⅞	9⅝	11⅜	.60
National Steel	58¼	34½	83¾	40⅜	75	57¼	59¾	1.50
N. Y. Air Brake	28¾	11½	36½	18½	46⅛	32½	43	..
North American	25¼	10¼	28	9	32⅛	23⅛	30	1
O								
Otis Elevator	19⅜	12½	26⅝	11⅛	32¾	24¼	25½	.60
Owens Ill. Glass	94	60	129	80	164	128	157½	5
P								
Pacific Gas & Electric	23½	12⅜	31⅝	13⅛	39⅝	30¾	39	1.50
Pacific Lighting	37	20¾	56	19	56⅞	47⅝	52	2.40
Packard Motor Car	6⅝	2¾	7½	3½	13	6⅞	10⅛	‡.25
Paramount Pictures	....	....	12	8	12	7⅝	8⅞	..
Penney (J. C.)	74¼	51½	84¾	57¼	88¼	69	87¼	*3
Penick & Ford	67	44⅝	81	64½	73	64½	67	3
Phelps Dodge	18⅞	13¼	28⅛	12¾	40¼	25⅝	32½	‡.50
Phillips Petroleum	20¾	13⅜	40	13¾	49⅜	38⅛	42¼	*1
Pillsbury Flour Mills	34¾	18½	38	31	37¼	30½	31½	1.60
Procter & Gamble	44⅜	33⅛	53¾	42⅜	49	40¼	45¼	1.50
Public Service of N. J	45	25	46¾	20⅜	48¾	39	47	2.40
Pullman	59⅜	35¼	52⅞	29½	48⅞	36⅞	45	1.50
R								
Radio Corp. of America	9⅛	4½	13⅜	4	14¼	9¾	11⅜	..
Radio-Keith-Orpheum	4¼	1½	6	1¼	9¼	5	5½	..
Raybestos-Manhattan	23	14½	30¼	16½	38¼	28⅞	31⅜	1.50
Remington Rand	13⅜	6	20¾	7	23¾	18½	18⅝	*.60
Republic Steel	25¾	10½	20¾	9	26¾	16⅞	18⅛	..
Reynolds (R. J.) Tob. Cl. B	53¾	39¾	67	55¼	58⅝	50	55	3
S								
Safeway Stores	57	38¼	46	31⅝	35½	30	30½	2
Schenley Distillers	38⅞	17⅛	56¼	22	52	38⅜	39	‡.75
Sears, Roebuck	51¼	31	69⅞	31	76⅜	59⅝	72¾	2
Servel	9	4⅜	17	7⅝	24⅜	15⅝	22¼	.60
Shattuck (F. G.)	13⅞	6¾	12⅞	7¼	16¾	11⅛	13½	.50
Shell Union Oil	11½	6	16½	5½	19¼	14¾	17¼	..
Socony-Vacuum Corp	19⅞	12½	15¾	10⅝	17	12½	12⅞	.40
So. Cal. Edison	22⅛	10⅛	27	10⅝	29¾	25	29¾	1.50
Spiegel May Stern	76¾	64	84	43⅞	77¾	63	68	3
Standard Brands	25¼	17¼	19⅛	12½	18	14⅜	15⅜	.80
Standard Oil of Calif	42⅞	26½	41⅛	27¾	47⅝	35⅜	36⅝	*1
Standard Oil of Ind	32¾	23¼	33⅜	23	40⅛	32¾	35	*1
Standard Oil of N. J	50⅛	39¼	52⅜	35¾	70	51⅛	59	*1
Sterling Products	66½	47¼	68	58¾	71¾	65	70½	3.80
Stewart-Warner	10⅝	4½	18⅞	6⅝	24½	16½	17¾	.50
Stone & Webster	13¼	3⅞	15⅛	2½	21¼	14⅝	19½	..
Sun Oil	74½	51½	77	60½	91	72	76	*1
T								
Texas Corp	29⅜	19⅝	30¼	16½	39½	28⅞	35⅞	1
Texas Gulf Sulphur	43¼	30	36¾	28¾	38¾	33	35¾	2
Tide Water Assoc. Oil	14⅜	8	15⅞	7⅝	19⅛	14¾	15½	.60
Timken Roller Bearing	41	24	72½	28⅜	72½	56	59	*2
Tri-Continental	6¾	3	8¼	1⅞	12	7⅛	8⅜	..
Twentieth Century-Fox	....	....	24⅞	13	32⅜	22½	23½	..
U								
Underwood-Elliott-Fisher	58⅞	36	87¼	53¾	99	74⅝	77	3
Union Carbide & Carbon	50⅞	35⅞	75¾	44	97⅞	71⅝	91	2.40
Union Oil of Cal	20½	11½	24	14¾	28½	20⅞	22⅛	1
United Aircraft	15¼	8⅛	30⅜	9⅞	32⅜	20⅝	22	..
United Carbon	50⅜	35	78	46	82¼	68	77⅛	2.40
United Corp	8⅞	2⅛	7¾	1½	9¼	5⅜	7⅜	..
United Corp. Pfd	37⅞	21¼	45¾	20¾	47¾	40¼	45¼	3
United Fruit	77	59	92¾	60½	80⅛	66½	77⅞	3
United Gas Imp	20⅛	11½	18½	9¼	19½	14¾	16¼	1
U. S. Gypsum	51¼	34¼	87	40½	110½	80½	98	2
U. S. Industrial Alcohol	64¾	32	50⅝	35⅛	59	33½	34⅜	1
U. S. Pipe & Fdy	33	15½	22⅝	14¾	42⅞	21½	41⅞	1.50
U. S. Rubber	24	11	17¼	9⅛	35	16⅜	27½	..
U. S. Smelting, Ref. & Mining	141	96⅝	124½	91¾	96½	78½	79½	‡8
U. S. Steel	59⅞	29⅜	50⅝	27½	72⅜	46⅜	57¾	..
U. S. Steel Pfd	99½	67¼	119¼	73⅝	132¾	115½	120¾	2
V								
Vanadium	31¾	14	21¾	11¼	27¼	16¼	17¼	..
W								
Warner Brothers Pictures	8¼	2¾	10¾	2¼	14⅝	9¼	9⅞	..
Western Union Tel	66⅞	29½	77¼	20⅝	95	72½	83½	‡2
Westinghouse Air Brake	36	15⅞	35¾	18	48⅛	34¾	39	1
Westinghouse Elec. & Mfg	47¼	27⅞	98¾	32⅝	125	94½	122¼	4
Woolworth	55¼	41¼	65¼	51	56⅜	44¾	52⅞	2.40
Worthington Pump & Mach	31⅞	13½	25¼	11¾	35½	23⅛	25	..
Wrigley (Wm., Jr.)	76	54½	82¾	73¾	79	66	68	*3

* Annual Rate—not including extras. † Paid last year. ‡ Paid this year.

Answers to Inquiries

(Continued from page 430)

ditions in the egg division also contributed to last year's showing and tended to offset increased volume in the ice cream and fluid milk divisions. That conditions in the industry are continuing to benefit from the better statistical position now existing is evidenced by the report for the first three months of the current fiscal year, or the quarter ended May 31, 1936, when net profit of $90,644 contrasted with $207,270 loss in the May quarter of last year. The retirement of the 7% preferred to which you refer and the issuance in its stead of $5 preferred will result in a saving to the company of $200,000 annually. Reduced to a per share basis, this will equal roughly 52 cents a share on the 377,719 shares of common. The organization has maintained a strong financial condition and has no bonds outstanding. In prosperous years, the company has earned as high as $7 a share on the common and with preferred dividend requirements to be reduced by the retirement of the 7% preferred, more liberal distributions on the common could easily be made if the present earnings trend continues as is indicated. While the industry doubtless has a long way to go before predepression earnings levels are attained, we believe that the stock does offer good possibilities of gradual appreciation from these levels.

STUDEBAKER CORP.

Would you counsel my holding 200 shares of Studebaker through the summer months? I could now sell with a 2-point profit.—T. L., Saginaw, Mich.

Based on latest available production figures, Studebaker Corp. for the first half of the current year should show earnings well in excess of $500,000. No direct comparison is available, since the company did not emerge from receivership until March of last year, but the report from that date until the year end, showed a net loss of $1,975,622. Despite the fact that the third quarter of the year may result in a loss as volume normally recedes and the company will have to absorb costs of model changes, little difficulty should be experienced in reporting a fair profit for the full year as against the rather heavy loss already referred to for the period from March 9 to December 31, 1935. Figures on factory passenger car and truck sales for the first twenty days of June, 1936, totalled 5,052 units, against 2,496 units for the corresponding inter-

val of last year, while retail deliveries by domestic dealers for the same period amounted to 4,638 units, or an increase of 75% above the first twenty days of June, 1935. These figures give a clear indication of the remarkable recovery being staged by the company under its present aggressive management and, when consideration is given to the fact that the company is said to operate on a profit with production of around 6,000 cars monthly, clarify the earnings potentialities. The reorganization of the company early last year placed it on a sound financial footing and recent results indicate that working capital position has been strengthened further. At the close of 1935, cash equalled $5,-160,352, which item, by March 31, 1936, had been increased to $5,357,555, an amount nearly equal to total current liabilities. Continued progress is being made also in the strengthening of dealer organization and sales figures indicate the success being attained in this important division of the business. Admittedly, competition continues keen and the smaller organizations in the field likely will continue to feel pressure from the three leaders. Nevertheless, Studebaker's present capitalization consisting of only 2,155,660 shares of common stock and 6,823,045 6% convertible debentures should enable it to report very worth while per share results if the present trend holds. While the speculative character of the issue should be recognized, we believe that further retention will prove profitable to you.

ENDICOTT JOHNSON CORP.

It seems to me that with retirement of the $7 preferred, in favor of a $5 issue, the earnings prospects for Endicott Johnson common should be greatly enhanced, yet it continues around the low for the year. Do you believe the possibilities are discounted in current prices?—E. J. N., Brooklyn, N. Y.

Endicott Johnson Corp., second largest shoe manufacturer in the country, has maintained an enviable earnings record over a period of years. For the fiscal year ended November 30, 1935, unit sales increased about 6% over a year earlier, but due to somewhat lower average prices and higher costs, net income declined slightly to the equivalent of $4.21 a share on the common, after preferred requirements, against $4.34 a share in the preceding fiscal year. Footwear prices advanced moderately late last year and it is therefore indicated that profit margins of the organization during the present fiscal year have shown some improvement. Although volume sales this year may fall somewhat below those of last, Endicott Johnson should be able to show the beneficial effects of better profit margins in at least a moderate improvement in net. Furthermore, the position of common stockholders has been strengthened through the retirement early this year of its 7% preferred stock with the proceeds obtained from the sale of 73,060 shares of 5% preferred. The company has outstanding no funded debt and the relatively small issue of preferred constitutes the only claim upon earnings preceding that of the 405,360 shares of common. The company has maintained the policy of constantly strengthening competitive position through increased plant efficiency and up to date styling. Plants are located in model industrial communities within a four mile radius of Johnson City and Endicott, N. Y., while every effort has been made to improve the lot of employees, thereby lessening the labor problem. While the policy of employee participation in earnings naturally tends to restrict dividend potentialities on the common, it doubtless lends a degree of stability and efficiency to the business. Past dividend record is one hard to match, with uninterrupted payments since 1917. In view of the organization's excellent financial status and demonstrated ability to maintain its trade position, there would seem to be little question as to continuance of the present $3 annual rate. The shares are not of the type likely to register appreciation of the extent possible in the case of less stable organizations, but they do hold attraction for one interested in safety of income as well as gradual long term enhancement.

ELECTRIC STORAGE BATTERY CO.

Do you believe the recent decline in Electric Storage Battery to be only temporary? Do you advise retention of shares purchased near the high for the year?—S. A. E., Evanston, Ill.

A review of the present situation and the prospects for Electric Storage Battery reveals nothing which could be considered definitely adverse, and which could be assigned as a reason for the more recent market action of the stock. We can find no cause other than that possibly these shares have been neglected in favor of other issues offering greater speculative appeal. Electric Storage Battery stock merits consideration for its investment qualities, on the basis of its record in the past, the importance of its position in the trade, and its strong financial status. It does not follow necessarily that the issue is void of possibilities for appreciation, or that a limit of earning power has been reached. On the contrary the outlook for increased earnings is quite clearly favorable at this time. In addition to its basic dependence upon the automobile industry, and to the encouraging possibilties to be found in that field, the company can look to widely diversified applications of its products in such direction as railroad equipment, public utility, aviation and more recently attention has been called to air-conditioning which has been growing in importance in its demand upon the production facilities of Electric Storage Battery. This field is yet in its early stages of development and offers encouraging prospects of large earnings in the future. Earnings reported for the company in 1935 were equal to $2.47 a share on the outstanding stock, or somewhat better than the $2.21 a share reported in the preceding year. It has been officially stated that the earnings for the first quarter of this year fully covered the 50-cent dividend requirement, and from such information as is available it is to be assumed that earning power is currently keeping pace with last year's results. While there appears no basis for the expectation of marked improvement marketwise in these shares in the near future, gradual recovery of the ground lost recently seems a very likely development, and we would advise retention of your holdings awaiting such a development.

GENERAL CIGAR CO.

I have been holding 150 shares of General Cigar bought at 36 in 1933. While I am interested in income, I am more interested in price appreciation, and I would like to know the possibilities in this stock.—R. K. L., Syracuse, N. Y.

We note from your inquiry that you are primarily concerned with the matter of price appreciation. While there are factors revealed by a survey of the situation in General Cigar Co., which can be definitely said to be constructive, and while it may further be stated that at least gradual appreciation is a reasonable expectation in the outlook for the shares of this company, it cannot fairly be stated that there is any evidence to support the hope for spectacular market action. By way of compensation, however, there is the matter of income which is important to you, and it may be stated that the prospects for an issue of this kind are more clearly defined, than is the case with more volatile issues. To that extent there is less risk involved in retaining your holdings. The strong financial status, and the importance of the trade position held by this company in its field, should weigh heavily in its favor. Moreover, after registering a decline of over 50% since 1920, consumption of cigars for the first quarter of the current year has started an upward trend, registering an increase of a little less

than 7%. The size of this increase is encouraging and the very fact that the decline has been arrested indicates the possibility that the industry as a whole may have passed through its greatest deflation so far as the important factor of consumption is concerned. That factor has been basic as an adverse influence in the earnings of cigar manufacturers for many years. It has been responsible not only for very substantial decreased sales volume, but also for the keen competition and price cutting which has developed, and which has seriously narrowed profit margins. Notwithstanding these heavy handicaps, General Cigar has been able to record quite stable earning power during the past three years, if we except an inventory adjustment in the year 1933 of over a million dollars. The necessity for inventory adjustments of this magnitude will probably not recur, since there is little to indicate a serious decline in leaf tobacco prices. If we except from momentary consideration this deduction which was equivalent to $2.15 a share on the common stock, we find that the year 1933 registers a low point in net earnings per share over the past seven-year period, a decline in the trend of earnings to that point from the year 1929, and an improvement since then in both 1934 and 1935. Earnings in the latter year were equal to $3.65 a share. It would appear that earnings for the current year should improve on those figures. In this record there is some evidence to support the hope that the cycle in the trend of earnings has turned definitely upward. If that be so, then the shares of General Cigar Co. may be said to be selling at an attractive price level in relation to earnings and yield, and could register quite substantial improvement marketwise.

MOTOR WHEEL CORP.

I have 100 shares of Motor Wheel on which I have 5 points profit. I would be interested in knowing the trend from here, and any information you can give me will be appreciated.—W. W. S., Los Angeles, Calif.

Since organization in the year 1920 Motor Wheel Corp. has been engaged in supplying the automobile manufacturers with wheels, stampings and other parts. It has come to have a well established place in its field, and may claim, in fact, a position as a leader. It numbers among its customers outstanding manufacturers of passenger cars and trucks. Quite naturally in a company so closely identified with the automobile industry, sales and earnings have varied with the fortunes of that industry, and since the low record in 1932 (a deficit of about $1,200,000) earnings have improved until the year 1935

MARKET STATISTICS

	N. Y. Times	Dow-Jones Avgs.		N. Y. Times 50 Stocks		
	40 Bonds	30 Indus.	20 Rails	High	Low	Sales
Monday, June 29	87.05	158.01	47.90	126.77	125.43	770,240
Tuesday, June 30	87.03	157.69	47.84	126.44	125.18	822,265
Wednesday, July 1	87.07	158.38	47.85	126.90	125.04	966,230
Thursday, July 2	87.00	157.51	47.84	127.09	125.16	1,072,650
Friday, July 3	87.11	158.11	48.05	126.86	125.17	1,020,180
Saturday, July 4	HOLIDAY—EXCHANGE CLOSED					
Monday, July 6	87.09	157.11	47.71	126.64	125.42	844,590
Tuesday, July 7	86.91	155.60	47.41	125.66	124.18	969,790
Wednesday, July 8	86.91	156.20	48.31	125.83	124.48	869,090
Thursday, July 9	87.03	157.71	49.18	127.41	125.59	1,291,590
Friday, July 10	87.11	160.07	49.86	128.86	127.14	1,691,980
Saturday, July 11	87.11	160.72	50.34	129.03	128.26	867,180

when net income very nearly equalling the deficit recorded in 1932 was reported. Earnings per share in the later year were $1.28. Financial status at the close of the year was adequate, the position in this respect having improved during the year. First quarter reports of the current year with earnings at 44 cents a share, continued the progress toward higher earning power as will be shown from a comparison with earnings for the first quarter of 1935 at 30 cents a share. Thus closely identified with the industry as a whole, a forecast of potential earning power would coincide with a forecast of production in the automobile industry. Indications point to further increases. It should not be inferred, however, that Motor Wheel Corp. has overlooked the advantages of diversification of its products. To this end, back in 1930, the company expanded into the manufacture of various types of heaters, oil burning and other varieties, including cooking ranges and ventilating and air-conditioning apparatus. Still further progressing along that line in 1934, the company began production of wood barrels for the whisky, wine and oil trades. All divisions at present report satisfactory improvement, and we feel that the shares have considerable attraction, from a speculative standpoint, at present price levels.

AMERICAN LOCOMOTIVE CO.

I bought 100 shares of American Locomotive last year because I believed the industry to be due for improvement. I am disappointed in the trend of the stock since, so I am writing you for advice.—A. K. L., Dorchester, Mass.

With American Locomotive common selling close to its low for this year, we can appreciate your disappointment in the market action of the stock since its acquisition. Nevertheless, we feel that further patience on your part will be rewarded ultimately. In this connection, it is interesting to note that orders on the company's books as of April 18, 1936, approximated $9,500,000, against $2,800,000 a year earlier. The number of locomotives on order totalled 50 of which 38 were for domestic carriers, which contrasted with only 14 locomotives on its books for domestic customers a year earlier. That the company's business could improve sharply once the credit of the railroads is re-established by expanding traffic and revenues is attested by the fact that more than 60% of the locomotives now in use are over twenty years old while only about 10% are of modern design. The company omitted dividends on its 7% preferred stock in the final quarter of 1932 and accumulations on this issue now total $26.50 a share on the 351,961 shares outstanding. It is generally believed, however, if the present trend of railroad earnings continues, that American Locomotive will be able to make some payment on its preferred before the end of the current year. Large per share earnings under normal conditions in the industry suggest that sustained improvement should enable the organization to clear up all arrears on the preferred without undue difficulty over a reasonable period of time and thereby place the common stock in a position to share in earnings. Of course, such a development is a matter of the rather distant future, although the fact that $8 a share on the common stock was paid in each of the four years ending with 1929 should not be overlooked. The organization's finances have been maintained in good shape, despite heavy operating losses during recent years, as is evidenced by the last year-end balance sheet, when current assets equalled $14,389,602, including cash and marketable securities of $7,579,849, as compared with current indebtedness of $1,643,706. If you are willing to foregoing income for what will probably be a rather extended period, we believe that worth while appreciation of your holdings will accrue.

Borg-Warner Makes Diversification Pay

(Continued from page 410)

decentralized operations in one common field of metal fabrication, and the further advantage that the consolidated enterprise is stronger and more stable than could be any single division with a specialized line of products.

Moreover, since the common theme is the fabrication of metals, the Borg-Warner expansion in non-automotive products is a natural development and not an untried venture. An organization experienced in the successful fabrication of clutches, transmissions, gears, timing chains and other such products is thoroughly at home in making high carbon and alloy steels, in re-rolling steels, such as used rails and railway car axles, into tubing and shapes for the farm implement and furniture industries, into farm fence posts and structural re-enforcement rods; in making plow steels, stainless steel sheets, beer barrels, axes, shovels, pressed steel wheels, agricultural flat and formed discs, industrial clutches, speed reducers and flexible couplings, reverse gears and transfer drives for marine engines; in making machinery, machine tools, commercial forgings; and in handling special machining contracts.

From the above incomplete list of products it will be seen that Borg-Warner has a sizable stake not alone in the motor industry and in household appliances—although these two now contribute the bulk of volume and earnings—but also in the farm equipment field, in construction and in American industry generally.

In addition the company holds a substantial stock interest in the Marbo Products Corp., which is engaged in extensive experimental work in rubber hydrochloride and derivative products. Promising results have been obtained in a synthetic "rubber" and a wrapping material similar to cellophane. When and whether these products and other derivatives may become of commercial importance is wholly conjectural. Their yet unknown possibilities may be said to lend an additional speculative interest to Borg-Warner.

The company's financial position is stronger now than ever before. Its working capital is $17,379,321—as of the 1935 year-end balance sheet—and this includes $9,069,703 in cash items. The property account, after depreciation reserve of $13,692,800, is only $13,918,965 and hence is substantially exceeded by working capital, a highly desirable and liquid relationship. Surplus account totals $19,988,034. Ahead of the common stock the only obligation is 20,000 shares of 7 per cent cumulative preferred stock.

The divisions of Borg-Warner are the Borg & Beck Co., at Chicago; Borg-Warner International Corp., Chicago; Borg-Warner Service Parts Co., with branches in principal cities; Detroit Gear & Machine Co; Ingersoll Steel & Disc Co., of Chicago and New Castle, Ind.; Long Manufacturing Co., Detroit; Long Manufacturing Co., Ltd., Windsor, Canada; Marvel Carburetor Co., Flint., Mich.; Mechanics Universal Joint Co., Rockford, Ill.; Morse Chain Co., Detroit and Ithaca, N. Y.; Morse Chain Co., Ltd., Letchworth, England; Norge Corp., Detroit and Muskegon, Mich.; Rockford Drilling Machine Co., Rockford, Ill.; Warner Gear Co., Muncie, Ind., Wheeler-Schebler Carburetor Co., Flint, Mich.; the Calumet Steel Co., Chicago, which was acquired last year; and the Detroit Vapor Stove Co.

Assuming continuation of the major recovery trend, a larger dividend on the common stock can be considered a logical probability. During 1933, 1934 and 1935 Borg-Warner distributed in dividends only some 37 per cent of net earnings. At the present dividend of $3 on the stock the distribution scarcely will exceed 50 per cent of probable 1936 profits.

While there is, of course, a wide possible margin of error in estimating the net per share for this year, on the evidence to date we do not see how it

could fall below $6—as compared with $5.89 last year—and unless American business goes into a more serious relapse during the second half of the year than we now anticipate these earnings could reach $6.75 a share. On either basis, taking into account the company's strong working capital position, a dividend of at least $4 would seem to us conservative.

This reasoning does not take into account the possible influence of the new undistributed earnings tax. Had this tax been in effect in 1935, it would have cost Borg-Warner an additional $834,000, adding more than 80 per cent to its Federal income tax. Assuming this year's net, before taxes, will approximate $9,000,000 and assuming further that the present $3 dividend rate is continued, the surtax on undistributed earnings would be, roughly, $785,000 or about 20 per cent of the net income retained and equal to approximately 63 cents per common share. That would be a heavy penalty to pay for further building up an already strong working capital and surplus position.

On a $4 dividend, which may be forthcoming within a reasonable period, the stock at the present quotation would yield a return of approximately 5.3 per cent.

No doubt the fast phase of recovery in the company's earning power and in the market price of its stock now lies behind us. Nevertheless, for longer retention we believe the equity possesses genuine merit both for income and appreciation.

Greyhound Corporation

(*Continued from page* 423)

franchises which it owns. Being one of the pioneers in the field, the company's early acquisitions included some of the most profitable bus routes in the country.

With its routes extending through most of the states in the Union, the company is subject to a veritable maze of state regulation, speed laws, etc. Bus transportation has expanded faster than suitable and workable regulatory measures could be enacted and no considerable confusion has occurred. For this reason, the executives of Greyhound and other leading bus companies feel that the placing of the industry under the jurisdiction of the I. C. C. as provided by the Motor Carrier Act of 1935 should ultimately bring order out of the present chaos of regulation.

Greyhound has distinguished itself by the high degree of operating efficiency which has been developed under the experienced hand of President Carl Wickman. This factor, perhaps more than any other, enabled the company to emerge from the depression with only one year of unprofitable operations chalked up against it. That was in 1932 and in that year the loss was only about $10,000. Up-to-date figures on the cost of operating Greyhound buses are not available, but on the basis of a survey made about two years ago, it was calculated that it cost approximately 25 cents a mile per bus. This figure included everything—administration costs, advertising, insurance, depreciation, taxes and actual operating expenses. Coupled with the necessity of carefully controlling costs in order that the company may adhere to a low-rate schedule and still show a profit, the company's management is faced with the problem of rising taxes. It is estimated that a large Greyhound bus pays around $1,500 a year in taxes, of which about half or more is on gasoline, the balance being made up of license fees and special taxes. This tax bill is cited by the company in refuting the accusation that its buses use the public highway free of taxes.

Like almost every other industry, bus transportation is faced with rising costs and taxes. Although the company's success in the past in meeting this situation is a favorable criterion, the present prospect injects some doubt into the

probable trend of near-term earnings. New equipment now being placed into service is lighter and more economical and costs may be further pared in other directions, but until there is more concrete evidence based on actual experience, it will be safer to anticipate some restriction in the rate of earnings gain over the more immediate months, at least.

Reverting again to the question of lower railroad fares in the East, the probabilities from the standpoint of Greyhound are supported by more solid ground. Actually, the lower fare schedules ordered in the East by the I. C. C. are less drastic from the standpoint of the potential traveler than is suggested by a simple comparison of present and former rates, when it is considered that all of the special excursions, week-end rates and round-trip rates have been largely eliminated. Formerly average rates on a Greyhound bus were about 75 per cent of the railroad fare. Giving effect to recent reductions the average fare on the company's buses is about 80 per cent of the lower rail schedule.

The problem of meeting lowered rail fares is not a new one for Greyhound. Several years ago when passenger fares were reduced in the South and West, in some sections to as low as 1½ cents a mile, the company met the reduction and was rewarded by a sizable increase in traffic. So were the railroads. From this experience, it would not be surprising if the same results were obtained in the East. Surely there is no reason for believing that if lower rates stimulate rail traffic, that they will not also stimulate bus travel. It has been estimated that if gross revenues of Greyhound in its Eastern territory decline about 15 per cent as a result of reduced fares, an increase of about 7 per cent in gross for the company's system as a whole will be sufficient to offset it.

Capitalization of Greyhound at the present time, according to the 1935 consolidated balance sheet, includes funded debt of $808,000 and 23,021 shares of 7 per cent preferred stock, convertible into the common on the basis of three shares of common for each share of preferred. Common stock is outstanding in the amount of 597,947 shares, including 16,000 shares to be issued under the company's management compensation plan. The company has applied to the I. C. C. for permission to split the common stock four-for-one. Financial position is fair and bank loans total $500,000.

Last year the company's earnings, including equity in undivided net profit or loss from operations of affiliated, controlled and non-controlled companies, amounted to $4,673,465, equivalent, after preferred dividend requirements to $7.55 a share on the common. This compares with $5.68 a share earned in 1934. Although revenues were higher in the first quarter this year net was lower owing to severe weather conditions and floods. As a consequence, profits were equal to only 25 cents a share as compared with 41 cents a share on a smaller number of shares in the same months of 1935. The company normally shows its largest earnings in the second and third quarters and with official intimations that gross has shown a consistent gain thus far this year, it is a fairly safe assumption that earnings will compare not unfavorably with last year's showing. Dividends have been inaugurated on the common at the rate of $3.20 annually.

At prevailing quotations around 58 the shares are selling about ten points above their low and substantially under their 1936 high of 80¼. At these levels, such uncertainties as may be conceded to the more immediate outlook appear to have been more than discounted.

Re-Appraising the Oils

(*Continued from page* 417)

doubt of the present situation in oil, because the outlook for oil during this year depends almost entirely on human behavior and the general ability of oil company executives to govern themselves. It is in the belief that our oil men are rational human beings seeking a profit from operations that we recommend the purchase of oil securities at present by speculators as well as investors.

In The Next Issue

Can Labor Win in its Struggle With Steel and Motors?

By DANIEL CRONIN MCCARTHY

A New Outlook for the Dairy Stocks

By J. C. CLIFFORD

How Crop Prospects Affect the Business Outlook

By C. S. BURTON

A Long Upswing in Building Impends

(*Continued from page* 407)

tion programs would put tens of thousands of men back to work, largely in the turning out of durable goods such as result from construction demands, where all economists agree lies the necessity for a revival in order to bring about a return of economic security and prosperity. Perhaps one of the reasons that the Presidential campaign thus far has had little if any effect on construction activities as well as other lines, is that we have been confronted with the same uncertainties involved in the fundamental issues before the people so long, we have become inured to them.

Underneath the present conditions of uncertainty lies, no doubt, a real demand for new buildings of all descriptions. Buildings—indeed all structural facilities—have a way of wearing out. New needs of a growing and ever-shifting population must be met, too. Once this demand asserts itself completely we will again be back on the main highway towards industrial prosperity in which the construction industries will play their customary major part. We have already left the devious detours behind us. Indeed we are well on our way toward better days.

Already stiffening rental scales and improving incomes have operated to awaken renewed interest in home-ownership. Many additional speculative home-building operations are now being projected by operative builders. The whole process is one largely of contagion, purely localized improvement gradually giving way to the general.

Multiple-family housing types, now only showing symptoms, should rather soon take on all of the characteristics evident in the small-house field, if the much heralded current recovery in the residential world is really genuinely founded. New money is still very slow to flow into multiple-family or apartment house types, although virtually a decade of continuous decline has occurred in this type of construction.

Whether a broad reversal nears is difficult to determine, but the fact that a quantitative gain in volume occurred in 1935 over the previous year affords a basis for believing that better times are ahead for investment housing types, too. This is the case if due regard is given to the mounting pressure from accumulating moneys in the hands of life insurance companies and savings banks which, in the past, were important factors on the financial side of investment building operations.

Broader Fluctuations on Smaller Volume

(*Continued from page 405*)

and dealers a summary of the possible effects would include: (1) A harder livelihood for the combination "$2-broker" and floor trader; (2) No effect upon the out-and-out commission broker, and (3) A smaller volume of security transactions on the exchanges. To the country as a whole, the latter is by far the most important effect. Markets undoubtedly will appear thinner—that is more susceptible to broad price change on small volume—but whether indeed they actually will be so, as is thought by those who oppose S E C's plans, or whether they will merely have the appearance of greater thinness with little if any loss of real liquidity as contended by S E C itself, only time and careful study will determine.

Competition is the Life of Capitalism

(*Continued from page 403*)

exercise it. It is doubtful if under the Constitution we would give them this power.

I have three proposals in answer. The first, and most important proposal, would tend to discourage the great size of corporations. When business activity becomes concentrated in the hands of a very small number of corporations, as is the case today, no regulation through anti-trust laws can hope to be effective. A tax, in addition to the regular corporation taxes, should be levied on the amount of profit a corporation has left after paying its operating expenses, but before interest and dividends are paid. This tax should start at about 2 per cent when this net operating profit amounts to $3,000,000 a year, and graduate upward to 50 per cent for those 25 or 30 corporations whose net capital return is over $50,000,000 yearly. This imposition of such a tax would tend gradually to decrease the size of huge business units which tend to eclipse law.

The second proposal deals with Section 7 of the Clayton Act, which outlaws mergers and acquisitions of securities and assets of corporations where the effect would be to restrain trade. The language as it now stands is plain upon its face and seems strong enough to halt the disastrous trend toward concentration of economic power. This language should be amended to restate what everyone thought it meant before the Supreme Court of the United States opened the door through which the corporation lawyers have been leading the larger corporations to escape entirely from its provisions. The expressed intention of Congress was nullified and Congress should reaffirm its position in such a way that even the Supreme Court cannot fail to see what is meant by its plain language.

The third proposal is to prohibit use of the "basing point" method of pricing, whereby members of the steel, cement, lumber and dozens of other industries are able to fix prices so that customers must pay the same no matter from whom they buy.

If price fixing is necessary to our economic life, then we should face the facts and know what we are getting into. I am not ready to believe that the American people are willing to abandon their fundamental business privileges. I am not ready to believe that the American people are yet willing so radically to change their form of government. Certainly, I will never believe that the people should have their form of government changed in this way without being fully aware of the processes which are bringing about the change.

New York Curb Exchange

Active Issues
Quotations as of Recent Date

Name and Dividend	1936 Price Range High	1936 Price Range Low	Recent Price
Alum. Co. of Amer	152	87	126
Amer. Cyanamid B (.60)	40¾	29¼	33⅜
Amer. Gas & Elec. (1.40)	43¾	33¾	40⅜
Amer. Lt. & Tr. (1.20)	25	17⅜	23¼
Atlas Corp. (‡.40)	16¼	11¾	12
Bower Roller Bearing (1)	29¼	20½	22
Butler Bros.	10⅞	7⅝	8⅞
Cities Service	7⅜	3	4¾
Cities Service Pfd	66	41½	64¼
Colum. G. & E. cv. Pfd. (5)	114	93	107⅜
Commonwealth Edison (4)	112	97	109
Consol. Gas Balt. (3.60)	92¾	84	91⅞
Crane Co	31⅝	24	30⅜
Creole Petroleum (†.20)	34¾	19⅞	27¼
Doehler Die Casting	32¾	27¾	32¾
Driver Harris (1)	39	25	25
Elec. Bond & Share	25½	15¾	23¾
Elec. Bond & Share Pfd. (6)	87	74¾	88
Ex-Cell-O A. & T. (‡.15)	23⅝	14¼	17½
Ferro Enamel (.80)	40½	28⅜	34¼
Flintkote A (1)	45	32⅜	33
Ford Mot. of Can. "A" (‡.75)	28⅜	19	19⅜
Glen Alden Coal (1)	18⅛	13¼	14¼
Hall Lamp (‡.10)	8¾	5⅞	6⅜
Gulf Oil of Pa. (1)	98	72	80
Hudson Bay M. & S. (1)	28⅜	22¾	23⅝
Humble Oil (1)	76½	57	64
Imperial Oil (*.50)	24½	20	21⅛
Iron Fireman (1)	31½	23¾	26¾
Jones & Laughlin	44	30	32½
Lake Shore Mines (*2)	60	51	59½
Mueller Brass (.80)	35½	23½	32
National Sugar Ref. (2)	30	23	26⅝
New Jersey Zinc (*2)	92⅜	69½	77
Newmont Mining (2)	96¾	74¼	83¾
Niagara Hudson Pwr	13½	7¾	13½
Niles-Bement-Pond	44⅞	28½	35
Pan-Amer. Airways (1)	66¾	45¾	53⅞
Pepperel Mfg. (3)	71	55	71
Pitts. Pl. Glass (*2)	140	98¼	120¼
Sherwin-Williams (4)	145½	117	134
South Penn Oil (*1½)	40½	32½	38¾
United Shoe Mach. (*2½)	90	83	89

* Includes extras. † Paid last year.
‡ Paid this year.

Investing by Industry

(*Continued from page* 413)

to maintain their old in proper repair. Now, however, with business volume on the upward trend there is being released a pent-up demand for all kinds of tools and machinery. Also, a not-to-be-forgotten factor in the outlook for companies in this field is the disposition on the part of manufacturers to buy the most modern apparatus, because on the one hand of the strong tendency for wages to rise and, on the other, in order to minimize the effects of possible labor disturbances.

Speculations in Bonds

(*Continued from page* 421)

operating income was up $600,000 by comparison with May last year and for the five months the gain amounted to nearly $2,000,000. During this period the road would have been able to show a greater percentage of net to gross had it not been for the larger outlays for equipment rentals and increased operating costs as a result not only of higher wages, but flood damages sustained in the early months.

Last year Southern covered better than 90 per cent of its fixed charges, as compared with 84 per cent coverage in 1934. This year, however, the road will have the benefit of a larger movement of cotton and the increased activity in the textile industry, and an enlarged demand for steel and lumber should be reflected not only in the movement of these products, but in miscellaneous products as well. Income will also be augmented by the increase in the Chicago, New Orleans, and Texas Pacific dividend from $8 to $10 and the payment of a $2 extra, and the recent dividend of $1.50 declared by Alabama Great Southern will add $138,166 to Southern's "other income."

In weathering the trying period just past, the road was aided by R F C loans and now appears to have fully dispelled the threat of insolvency. On April 30, last, current assets of more than $24,000,000 included cash of nearly $7,000,000, and compared with current liabilities of $16,937,675. The road is indebted to the extent of $19,345,664 to the R F C but there are no bank loans, and no maturities prior to 1938.

Total funded debt of the road amounts to $288,000,000 approximately, giving it an unbalanced capital structure, and creating a heavy burden of fixed charges when traffic and revenues are restricted. However, with the security of the road apparently becoming more assured each month, the possibilities for both a liberal yield and price appreciation offered by its funded obligations are worthy of consideration.

The Refunding and General 6½'s 1956 are issued under a junior mortgage but the bonds are well secured by their property equity and once the earnings have recovered to a point sufficient to provide normal coverage for interest charges they should sell substantially higher. Selling around 92, the bonds give a current yield not far from 7½ per cent.

Significant Foreign Events

(*Continued from page* 415)

contingents for the month of June alone, Congo copper, together with Congo tin and Congo cobalt, were allotted a total of 563 thousand marks. This is understating actual capacity since the quota allocated to Kantanga mines had been reduced 30 per cent in 1935, curtailing actual output to 110 thousand tons.

Tin production fell likewise under the restrictions of international agreement. Far from being a menace to American industry, Congo tin shines like a bright star on a dark continent. When the United States attempted to operate tin refining plants, certain European manipulators drove down the prices of tin—wiped out the profits of the infant industry. The result—the United States imported only one hundred thousand dollars worth of tin ore in 1935, as against 70 million dollars of refined tin in various forms. Should capital be found for again sponsoring the industry in the United States, Congo tin offers a new and possibly unfettered source of supply. Even if Belgium submits docilely to the international restrictions imposed, this new increase in the world supply must invariably entail lower tin prices and hence benefit indirectly American consuming industries.

For Profit and Income

(*Continued from page* 419)

this year to establish a new high record of $5,209,783,428. Over the same period depositors gained 51,000 to a number just short of 6,000,000. This, it should be stressed, is just one state. Once let tampering with business, securities, or currency ever reach the point where it begins to hit savings bank depositors in an obvious manner and the political advocates of such tampering will find themselves in a roughhouse such as they never thought possible.

Happening in Washington

(*Continued from page* 399)

Latest attack on profits system being made by the Administration is pushing idea of consumer cooperatives. Much will be heard on this during fall. President Roosevelt suddenly pounced on scheme and sent three men to Sweden to study it there, none of whom are familiar with subject. Agriculture Department, sponsor of farm co-ops, jumped into the breach and got belated authority to send three experts on the next ship to serve as advisors to President's commission, hoping to keep Administration from running wild.

Full story of bankruptcy of Farmers National Grain Corporation has not been told. Details closely guarded in Washington. Reflects unpleasantly on both Hoover Farm Board which started it and Roosevelt Farm Credit Administration which has now refinanced it for third time. Recent virtual bankruptcy leaves F C A holding bag in form of bad assets and permits the corporation to start anew with clean slate and only good assets. Total loss to Government estimated as high as $14,000,000.

Increase in already considerable movement of banks to retire capital stock and notes sold R F C two and three years ago will be noted when first partial maturities come due starting in August. Banks have already retired one-fourth of total such stock in advance of due dates, thus getting out from government ownership and danger of control. R F C warns against too rapid repayment unless adequate private capital can be substituted to maintain proper ratio between capital and deposits.

Inter - departmental squabbles are delaying issuance of regulations under Walsh-Healey government contracts act (effective September 30). Bone of contention is provision that act does not apply to purchases which may usually be bought in open market. Government purchasing agents say this means such common things as gasoline, tires, cars, pencils, etc., which while bought on Federal specifications, are not made to order for the Government, thus confining law to relatively few articles used by Government alone. Labor Department which administers the law, backed by labor unions, wants to interpret open market as small emergency purchases when time prevents competitive bidding, thus applying law to practically everything.

Lack of enforcement funds will pre-

Bank, Insurance and Investment Trust Stocks

Active Issues

Quotations as of Recent Date

BANK AND TRUST COMPANIES

	Bid	Asked
Bankers (2)	62½	64½
Bank of Manhattan (1½)	28¼	29¾
Bank of N. Y. & Trust (14)	498	503
Central Hanover (4)	124	127
Chase (1.40)	44½	46½
Chemical (1.80)	59	61
City (1)	38½	40½
Corn Exchange (3)	64¾	65¾
Empire (1)	23	24
First National (100)	1950	1990
Guaranty (12)	307	312
Irving Trust (.60)	15	16
Lawyers Trust (2.40)	48	51
Manufacturers (*1.50)	47	49
New York (5)	125	128
United States Trust (*70)	1905	1955

INSURANCE COMPANIES

	Bid	Asked
Aetna Fire (1.60)	53	55
Aetna Life (*80)	32½	34¼
Carolina (*1.20)	28½	30
Glens Falls (1.60)	39¼	41¼
Globe & Rutgers	43¾	47¼
Great American (*1.20)	28½	30

INSURANCE COMPANIES—(Continued)

	Bid	Aasked
Hanover F. (1.60)	36¼	38¼
Hartford Fire (2)	72½	75½
Home (*1.20)	35	37
National Fire (2)	69½	72½
Phoenix (*2½)	84½	88½
Sun Life Can	440	470
Travelers (16)	561	578
United States Fire (1.80)	50½	52½
Westchester F. (*1.40)	34	36

INVESTMENT TRUSTS SHARES

	Bid	Asked
Amerex Corp	24½	25¾
Brit. Type Investors	31	51
Bullock Fund	17⅞	19⅜
Corporate Trust—AA	3.27	....
Fidelity Fund	26.98	29.06
Incorporated Investors	23.00	24.73
Maryland Fund	18.74	20.27
Massachusetts Invest	26.34	27.95
No. Amer. Trust Shares 1958	3.35	....
Quarterly Income Shares	1.65	1.82
Spencer Trask Fund	20.28	21.11
Uselps Voting Shares	1.20	1.28

* Includes extras.

vent Labor Department sending inspectors into hundreds of plants to check compliance, so in large measure enforcement may rest on good faith of contractor except where employees kick. Labor leaders, however, will see that kicks are made.

Organized labor considers Walsh-Healey bill simply the camel's nose under the tent. Next Congress they expect will greatly enlarge and expand it, plugging loopholes which may develop meanwhile, and use it to force 40-hour week and minimum wage regulations on practically all industry.

Never to be forgotten in connection with Walsh-Healey bill and every other Washington happening that affects business is that President Roosevelt has never abandoned the idea that NRA was a good thing. He is backed in this by organized labor and his coterie of liberal personal advisers. They seek to revive NRA in some form whenever possible.

German efforts to revoke U. S. countervailing duties are not expected to get far unless Germany alters her foreign trade control system. Our Treasury says German exchange control constitutes export subsidy, so imposed countervailing duties on German shipments here. Reich trade delegation now in Washington trying to explain that system is not a subsidy, hoping for removal of countervailing duties and possibly new commercial treaty or reciprocal trade agreement. State and Treasury officials are not impressed. German system of bi-lateral trade balancing is directly contrary to Hull trade philosophy.

Retired Comptroller General McCarl is being watched by both friends and foes of Administration. He has offered to help Byrd committee study government reorganization and economy. Rumored he may turn loose a blast on New Deal spending methods now his official gag is off. Administration may try to keep him friendly by offering some new Federal job.

Tugwell has been thwarted again. Cut in funds and failure of Resettlement program to work out as well as planned caused the Doctor to look for new worlds to conquer, so he proposed to take the Northwest drought under his wing. Now that drought has become national story, Wallace and Hopkins have assumed command and Rex takes a back seat.

For Features to Appear in the Next Issue
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